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letters TO THE EDITOR

The power controversy

•Your articles are *usually* honest, true, fairly liberal. But the one on "Private vs. Public Power" [CHALLENGE, August-September 1956] is full of half-truths.

TVA makes a very good profit, pays local taxes (or contributes an equal amount), charges rates that are one-half of private company rates. TVA is not subsidized, and it *pays* off government loans. If private companies would pay off their stocks and debt, pay only 4 per cent on the stock they need, they could also work on rates that are 50 per cent or less. Thousands of municipal electric plants are like TVA in regard to rates. If they do not make a "profit" they provide the town with savings in costs. If they make a profit it goes to the town to reduce taxes.

We, the readers, deserve an answer *now* by an unbiased writer!

WELLS H. SMITH
RAMSEY, N. J.

(CHALLENGE *believed the arguments presented by Herbert R. Frankel in "Private vs. Public Power" deserved consideration.* CHALLENGE *leans to no side in this controversy; it merely presents the views of its contributors and lets its readers make up their own minds. Adherents of public power have written for us in the past, and will in the future.—Ed.*)

Goals vs. Methods

•I read with great interest Albert Somit's article, "A New Pattern in Politics" [CHALLENGE, August-September 1956]. I wonder, however, if Mr. Somit has not forgotten one very important possibility.

The trend toward mutuality of interests which more and more overlap sectional and party lines could eventually lead to the demise of the two-party system and with it free elections in the United States—an event I hope will never take place.

JOHN AMUNDSSEN
MINNEAPOLIS, MINN.

(*While it is true that both major political parties in this country are agreed on major issues—peace, full employment, support for farmers, etc.—they are still at variance as to the methods for achieving these goals. It is hardly conceivable, therefore, that the two-party system will pass from its familiar place in the American scene.—Ed.*)

The cost of "security"

•One of the best contributions to my education was your series on "What Do Americans Think of Capitalism?", particularly the article in the December 1955 issue. This article cited the trend in the thinking of

individuals about security. I recently heard a lady say that the government should provide pensions for everybody at age fifty. She "expects" it; thinks of it as "her right." She has no conception either of the cost in increased government spending or of how she is sacrificing her "right" to independence. How do you influence such thinking?

MARCELLA GAY
SANTA BARBARA, CALIF.

(Unless by education people are taught to realize that government can give them only what they give government in the first place, it will be difficult to dissuade people from demanding more "security."—Ed.)

Gold standard debate

•Sidney Weintraub's article, "Is Gold the Root of All Money?" [CHALLENGE, August-September 1956] comes closer to a sound discussion of the subject than any I can recall reading. And yet, from where I sit, it has several weak points.

I think the public welfare would be better served if we stopped confusing the people with highbrow, technical discussions which say we are "off the gold standard." Actually, the dollar is firmer and inescapably "anchored" thereto—making it the "root" of our money—as it has always been. Only the "ratio" has been altered, and is now 15 and 5/21 grains to the dollar.

We have an ample supply of gold to meet all foreseeable international needs. And if a nation has ample gold for its needs, it's "on" the standard; if it hasn't it's off—like you and I when our checking account gets low.

In the latter case, the nation has to resort to barter. Lacking products with which to barter, it must seek credit which usually can never be paid, or outright charity. Gold is the only international money.

A. W. WETSEL
HARRISONBURG, VA.

(The issue is not the mode of making international payments but the manner in which the domestic money supply is regulated. In view of the Federal Reserve powers over reserve balances the stock of gold neither controls nor governs the domestic money supply. To illustrate: since the end of 1952 our gold stock has fallen by about 1.3 billion dollars while demand deposits and currency have risen by some ten billion dollars. This is hardly what we would expect on a "pure" gold standard but not uncommon for a managed gold standard.

Whether the country is on or off the full gold standard depends not merely on whether it has "ample" gold but on whether the central authorities buy and sell gold freely at a fixed price. For all we know Russia may have "ample" gold. Would anyone argue that she is on the gold standard?—S. Weintraub.)

How "free" is free?

The daily papers are reporting an advance of two per cent in the cost of living. One reason for this increase may be the current practice of "free" gifts and "free" stamps being carried on by food stores.

A thoughtful person can readily see the duplicity of the so-called "free" gifts and stamps. The cost of these items comes out of the customer's purse. The stores could well dispense with their free items and cut the prices of the food we eat.

CHARLES D. GRESSWELL
LOS ANGELES, CALIF.

a personal note from the editor

assessing the Hungarian revolt and the Polish blow to communism

HISTORY recorded big happenings during the past four weeks. The American people voted a second term for their President; Eastern Europe began to shake itself from the constrictive embrace of the Russian bear; and the Middle East cauldron boiled over and deposited its residue of anger and irreconcilable interests on the desert sands for all the world to see.

At this writing, events unfold so quickly that it is impossible to draw conclusions which will make sense two weeks from now when this column will be read. The tragedy for the West was that at the very moment Russia became embroiled with her satellites, discord over Middle East policies split the leading powers of the world outside the Iron Curtain. What will happen next? It is possible that we stand at the brink of global war. It is probable that we do not. But one thing seems certain. The delicate balance of power which for so long has typified the cold war has been upset. The outcome of events in Eastern Europe and in the Middle East will determine the shape of the new balance and whether East or West will have an advantage.

The posture of defiance that the Poles adopted came as a genuine surprise to most of us in the West. That the Poles got away with it was even more surprising. But the Hungarian revolt—the spontaniety of it and its ferocity—that was nothing short of amazing. If the Communist system in Eastern Europe is not in a state of dissolution, the Russian hegemony is.

The crucial point to be considered is that what happened in Poland is far more serious for the Communists than what happened in Hungary. For in Hungary, nationalistic passions unleashed a type of fury against foreign domination which has many precedents. Subjugated peoples have for centuries been revolting against foreign masters. The Russians, before they were Bolsheviks, were quite familiar with this type of revolt and took the customary steps to crush it.

But the affair in Poland was very different, and in this difference resides a threat to the monstrous system of communism such as the

world has never before witnessed. The damning evidence of economic stagnation in Poland was too much and too serious even for the Russians to neglect. To be sure, the Polish resistance had more than its share of nationalistic overtones. But the foundation for the Polish demands rested on the failures of the Russian brand of communism. Russian communism had failed to give the Polish people what the people themselves could accept as the minimum reward for their labors. The Russians either had to give Polish communism an opportunity to do better, or they had to run the risk of open rebellion. Even with Russian troops close at hand, Moscow measured the risks and decided against force.

This victory against communism is bigger than it seems. Actually, this is the first admission before the world that communism has failed to fulfill its promises. Indeed, events since Lenin took over the Russian revolution have now traveled the full circle. Lenin and his Bolsheviks overwhelmed the other revolutionary parties because Lenin, though infatuated with Marxism, knew how to make irresistible the appeal to the stomach. Among other things, he promised bread. The Communists have been promising bread ever since. Of course, their materialist interpretation of history recognizes that the word "bread" cannot be taken literally. Therefore, their promises have run the entire gamut from bread to all of the material components that go into a high standard of living. They have never been able to deliver.

The Polish discontent was built amound economic slogans: inflation, high prices, low wages, long working hours. East Berlin had the same complaint three years ago, but that was snuffed out under a hail of machine gun bullets. In Poland the inefficiencies of communism were spelled out to the Russians, and this time the complaints could not be quashed. The workers' paradise was too much to endure for the Poles, and so Gomulka came in.

It is believed that Gomulka is more a Pole than he is a Communist. That the Russians accepted him was an admission that they did not wish to play with fire. That the Polish people accepted him is an indication that he will be endured only if his brand of communism can produce better results than the Russian brand. For the first time in almost 40 years a people have dictated the terms on which they will accept communism. The usual procedure is for a Communist hierachy to dictate to the people. This development, it seems, holds a greater hope for the world and a greater threat to world communism than the ferocious Hungarian revolt.—H. B.

Challenge Notes

Savings and the psychology of thrift; classical jingles

ARE WE saving enough to maintain a rate of investment which will assure continued economic expansion? Few questions have disturbed economists more (and the general public less) than this one. And few are more difficult to answer precisely.

For one thing, statisticians have different ways of measuring savings. Depending on how we define "saving," the American public saved eight billion dollars, or 17 billion dollars or 61 billion dollars during 1955. Generalizations about the trend in savings based on any one of these figures are bound to be misleading unless we clearly understand what each represents. For example: if we use liquid savings as a measure (currency, bank deposits, savings and loan association shares, etc.), then our current rate of savings will fall far short of the staggering wartime totals.

On the other hand, if we add private and government insurance and pension reserves, then the trend in savings looks much more encouraging—even if we deduct from these savings our growing mortgage and consumer debt commitments. As we pay back our mortgage and our instalment debts, we are, in effect, adding to our savings by building an equity which can at any time be converted into cash at current market prices. And from that point of view, we are a very thrifty people.

Psychology of thrift

INDEED, a close look at personal savings figures since the end of the war suggests that there has been a revolution in the form of our savings and, as a result, in our whole psychology of thrift. Living as we do in an era of unprecedented prosperity, which gives every indication of continuing, we are somewhat less concerned about setting aside "emergency" cash funds. Insurance policies and pension plans take care of most of our expected and unexpected future

needs. And, in an expanding economy like ours, most of us prefer to spend our income as we make it, rather than make it grow by saving, for we expect our income to go up without incurring the inconvenience of postponing consumption.

It is this decline in the old-fashioned virtue of thrift rather than an inadequacy in savings as such that bothers a good many economists. Economic growth in any industrial society depends upon a high rate of investment in order to finance the technological innovations upon which the jobs, incomes and standards of living of the population largely depend. In a capitalist economy like ours, such investment moneys must come, in part, from the voluntary surrender of income by individuals. If the desire of individuals to surrender present income for bigger future income dulls, this may be the result of inadequate incentives to save, or of overwhelming incentives to buy, or—most probably—a combination of the two.

A great deal has been written about the decline in incentives to save. Taxes and inflation (the dollar has depreciated by more than 50 per cent during the last 15 years) have undoubtedly made some forms of saving much less attractive. On the other hand, incentives are, at least partly, subjective factors. The same incentives may no longer lure our savings because our reasons for saving have changed.

The typical saver of 1956 is, after all, a very different individual from the typical saver of 1939. But, unlike the consumer who has been studied, surveyed and psychoanalyzed *ad nauseam*, very little is known about what makes the saver save.

And yet such studies could tell the economist a good deal about the psychology of saving in an economy of plenty. On the basis of such knowledge, our principal savings organizations could reexamine their services. Without such knowledge, all attempts to increase savings must be at best one-sided.

Classical jingles

ARE radio jingles a threat to musical culture? Many people think so, but, so far as we know, nobody has yet done anything about it. Except one New York radio station. Appalled at the low musical quality of a particularly repulsive jingle which paid for Bach and Beethoven, the station scored the jingle as the opening theme of a "classical sounding" string quartet. The sponsor was delighted. Now, we understand, some merchandisers are getting more ambitious. Why not a whole symphony?—M. K.

Inflation's new threat

by John McKnight

Rising prices and wages, without a corresponding increase in the money supply, are creating what some economists call "cost" inflation

THE "new look" popularized in fashions and automobiles has spilled over into other—and unusual—fields. There is even a new look in inflation these days.

Economists, accustomed to viewing inflation as an expansion of the money supply, are perturbed about the nature of the new spots on the face of the old beast. Some economists have tagged it "cost" inflation; others have refrained from characterizing it. But they all agree that a strange, and perhaps dangerous, influence has entered our economy.

The influence stems from the continuing rise in wages and prices without a corresponding increase in the money supply. The supply of money, as measured by active (demand) deposits and currency outside the banks, has barely increased during the past 12 months; while wages and prices have risen by four to six per cent. Moreover, the relative change in the money supply over the last three of four years has been less than the increase in total physical output.

Two important wage developments may intensify the inflationary danger in the next few months. One is the increase of the minimum wage to one dollar per hour last March 1. The other is the steel-wage settlement under which workers in that industry received a package increase of about 50 cents per hour over a three-year period. These advances serve to strengthen the trend of rising hourly earnings applicable in every industry.

For example, earnings in the machinery industry rose from $2.09 per hour in August 1955 to

$2.21 per hour in August 1956. Earnings in the chemical industry rose from $2.01 to $2.13, and in the petroleum and coal industries from $2.38 to $2.53. Average hourly earnings in all manufacturing rose by 5.3 per cent in this period, from $1.88 to $1.98 an hour. Corresponding gains occurred in mining, construction and public utilities, and smaller advances were recorded in retail trade and service industries.

Other prices and costs have also risen. The rise of 94 per cent in hourly earnings in an 11-year period has been accompanied by a 67 per cent rise in wholesale prices and by a 52 per cent rise in the consumer price index. The drop in the dollar's purchasing power at wholesale during this period has been 40 per cent.

Worried about the inflationary dangers inherent in this situation, the Federal Reserve Board has been attempting to regulate the money reserve requirements of its member banks for the past year and a half. But can the Federal Reserve pursue its goal of stabilization in the face of Congressional action to raise minimum wages and the acknowledged power of organized labor to insure yearly gains in worker income? The answer appears to be "No."

Inflation is generally regarded as a situation in which there is a large increase in the money supply, in the absence of a corresponding increase in output of goods. This is the well-known monetary inflation. Most monetary inflations have accompanied or followed major wars and have resulted from an overissue of currency by the warring government to pay the costs of the conflict. Warfare implies a large increase in demand for goods—for munitions, uniforms, transport, etc.—by the government. This demand comes on top of the continuing demands of the civilian economy. The inability of most economies to meet both types of demand at the same time leads to a situation in which the existing money supply becomes greater than the goods available. The result is competition for goods by money and a strong upward pressure on prices.

There have been all degrees of monetary inflation. A serious inflation occurred in Germany after World War I. On that occasion a vast oversupply of money, coupled with a general scarcity of goods, resulted in skyrocketing prices and rapid currency depreciation. The depreciation proceeded so quickly that the German public lost all confidence in the currency. This in itself led to further currency depreciation and to astronomical rises in the price level.

Greece furnished an outstanding

John McKnight is executive vice president of Econometric Institute.

example of this type of inflation in World War II. At one point, the Greek government sought to halt rampant inflation by issuing new currency at the rate of one drachma of the new for 50 billion drachmas of the old. Several monetary inflations have marked our own history as, for example, after the Revolutionary War when the expression "not worth a continental" described the value of our money. Price inflation from an oversupply of money also occurred after the Civil War, and to a lesser extent after World War I.

Effect of controls

By World War II, most nations were aware of the inflationary potentials of wartime financing and were ready with a variety of controls designed to prevent prices from rising and also to ration a prospective smaller supply of goods to the civilian population.

Our experience during World War II was thus unique. There was a substantial inflation of the money supply but no corresponding rise in prices. Hidden price increases did take place through quality depreciation of goods, but most potential increases were held down by controls. When the war ended all controls were lifted, there was an immediate upsurge of all prices. These increases were due, in part, to the imbalances which had developed during the war; to a scarcity of civilian goods; and to demand by labor for wage increases.

In countries such as England, where price controls continued after the end of World War II, a second type of inflation revealed itself. This was termed "suppressed" inflation and was similar in many respects to the cost inflation which has been proceeding gradually in our own economy.

The English situation required the curtailing of domestic demand for goods in the postwar period so that the English economy could divert sufficient production for exports. At home, a large pent-up demand for goods resulted. To this was added a growing demand by labor for wage increases. The resulting pressures on wages, prices and other costs were held down only by rigid controls.

In the U. S., most of the postwar rise in prices occurred before 1952. The sharpest gains took place in 1946 and 1947, just after the end of price controls, and again in 1951, following the outbreak of the Korean war. Prices were stable from 1952 to 1954, but have again risen during the last year and a half. The wholesale price index rose by three per cent in the year ending August 1956 in contrast to an advance of less than half of one per cent in the 12 months ending August 1955. Farm and food product prices rose by

about one per cent in the year ending August 1956, while other prices rose by four per cent. Leading the price parade were metal products, machinery, paper, hides and leather—all with increases of more than six per cent.

It is significant that the largest price increases of the past year were in those industries whose products were in strong demand and where production was pressing upon available capacity. These industries were able to pass on higher costs and thus maintain a level of profits which would permit further capacity expansion.

Overcapacity feared

For example, the steel industry indicated in late 1955 that an additional 15 million tons of capacity would be added over a three-year period. Substantial capacity additions have already been made in the paper industry, and more are in prospect for 1957 and 1958. But fears of possible overcapacity have already been expressed by industry leaders. Overcapacity would react against further price rises in all industries which build too far ahead of demand.

Similarly, gains in labor productivity, resulting from the installation of additional capital equipment, would offset prospective increases in hourly earnings. Labor costs, as a part of the price of finished goods, are affected both by worker earnings and worker productivity. If wages rise more than productivity, finished goods prices will tend to rise. If wages rise less than productivity, finished goods prices will probably stabilize or decline under competition.

The 84 per cent rise in hourly earnings in manufacturing from 1945 has been well above the gain of approximately 42 per cent in manufacturing worker productivity in this period. The resulting disparity has contributed to the cost inflation of the postwar period.

Organized labor will undoubtedly press for and obtain continuing wage increases in the future. Persistence of the present cost inflation will hence depend on future gains in labor productivity. Here, the outlook is hopeful. Current large expenditures for plant and equipment by American industry will probably result in larger productivity gains than we have seen in recent years. In addition, overcapacity would tend to limit wage increases in some industries.

This is not to say that prices will not rise. A look at our history, and at the history of other countries, reveals that prices have increased—though in major cyclical movements—over long periods of time. The wholesale price index in now about three times what it was at the turn of the century.

Some economists feel that a stable price level is best. However, a moderately rising price level is not harmful and may even provide a better climate for economic growth since it will create incentives for additional capital investment. What is most desirable, of course, is growth in total output per worker under relatively stable conditions. This would assure continuing rises in per capita income.

Increases in the money supply are needed to accommodate increases in total output. An increase in total output implies a greater number of transactions and hence a greater demand for money. This greater demand can be met through a larger money supply or through a greater turnover of the existing supply. Deposit turnover of the leading New York City banks, for example, rose by about 15 per cent between August 1955 and August 1956. This reflected the rising demand for money, even though deposits of these banks did not increase during that period. Substantially the same situation prevailed nationally.

Over the last four and one half years—from the final quarter of 1951 to mid-1956—the active money supply has risen by 17 per cent. Total output has probably risen a little more. Gross national product, in constant dollars, rose by 18 per cent; the Federal Reserve index of industrial production by 19 per cent; and a weighted index of industrial production, agricultural production and construction activity, by 20 per cent.

But there has been a marked slowdown in the rate of increase of the money supply over the past year and a half, due largely to the open market operations of the Federal Reserve System.

These operations have exerted pressure on money-bank reserves and have led the banks to liquidate more than ten billion dollars of United States government securities in an attempt to meet rising demand for loans. The result has been a sharp drop in government security prices, a rise in yields of government, corporate and municipal bonds, and short-term money rates have climbed to their highest levels in 23 years.

The current "money shortage" is reminiscent of the classical money tightness at the top of a "boom," with one major difference. This tightness has been induced by the Reserve authorities and is apparently based on the thesis that too rapid a rise in business activity is bad. If so, this is an area which deserves further investigation, particularly since the Federal Reserve is not in a position to affect the size of labor's wage gains, a factor in our current "cost" inflation. ■

The U.S. Position In the World

AMERICA 1975
SERIES

It will depend as much on our ability to make peace as on our power to wage war

by Quincy Wright

CHANGES in the field of international relations, as in all other fields, are proceeding with increasing rapidity. Some have predicted that by 1975 the general use of nuclear energy in production and transportation will result in 5,000-mile-per-hour rocket planes; that the use of direct solar energy, chemical agriculture, extensive automation and medical advances will permit control of the weather, a world-wide rise in living standards and an increase in the normal span of life to almost a century. Others have foreseen, in the not too distant future, interplanetary communication and control of the genes, thus creating new human, subhuman and superhuman species.

Such changes would drastically modify the field of international relations, requiring major alterations of present policies of national governments and giving advantage to capabilities very different from those now dominant in world politics.

Because of the possibility of such radical modifications, this article will approach the problem of prediction with caution. It will start from where we are now, assuming that the disciplines of international politics, international law, international organization and international economics will not change radically during the next 20 years. It will assume that national governments will continue to be the major decision makers and that their policies will continue to aim at preservation of national territorial integrity and political independence with secondary goals of improved power position and economic prosperity.

To achieve these goals, the capabilities of independent governments will be measured in terms

of four somewhat disparate elements—armaments-in-being, military potential, morale and reputation. Clearly, the importance of each of these four factors depends on the probable duration of a war. Armaments-in-being are more important in a short blitzkreig than in a long, drawn-out war of attrition. Our prediction concerning the relative capabilities of the U. S. and the USSR in each of these fields is, therefore, only a rough estimate.

Armaments - in - being. The United States disarmed precipitously after World War II; and though it built up rapidly during the Korean hostilities, since 1953 an effort has been made to reduce military budgets. This effort was accompanied by much controversy on the relative values of different types of armament, with the emphasis being put more and more on the air arm and atomic weapons. The democratic character of the United States government tends, as compared with the Soviet government, to take into account the pressure of taxpayers. Events since the death of Stalin, however, suggest a disposition on the part of the Soviet government to direct a larger proportion of resources to consumer goods in order to increase living standards, at the expense of armament.

The value of arms-in-being has to be measured both qualitatively and quantitatively. The effort to maintain large stores of arms is likely to involve commitment to mass production of and a reliance upon arms of obsolete model. Furthermore, stores of arms-in-being may involve commitment to strategic and technical formations and plans adapted to those weapons. Emphasis upon arms-in-being may thus tend to produce rigidity in military thinking as well as a suspicion in other countries of aggressive intentions.

It seems likely that the Soviet Union will, in the next 20 years, gain on the United States in armaments-in-being because of less concern over the state of the consumer economy, greater capability of directing resources to military preparation, and the acquisition through scientific effort of equal knowledge of the most recent nuclear and air weapons. But this gain may be more than offset by less flexibility in military thinking, less ingenuity in the application of science of war, and a greater commitment to traditional types of war.

Military potential. This includes population and natural resources, industrial plant and agriculture, education and inventiveness. The United States has a smaller popu-

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Quincy Wright, Professor Emeritus of International Law at the University of Chicago, is author of the noted book, *A Study of War.*

lation than the Soviet Union, and while the differential in population growth is not too great, it appears that the Soviet Union has a slight advantage here as well. In raw materials, both from the extractive industries and from agricultural, the United States has had more available, but the civilian economy has been using them up more rapidly. The ultimate resources of the Soviet Union may not be far behind. The United States, however, has been in a better position to draw on the world outside the Soviet orbit by trade. In industrial plant and in argicultural productiveness, the United States has had a marked advantage. The Soviet Union appears to be catching up in industrial production, especially in heavy industry, but continues to lag in agriculture. In education and inventiveness, the Soviet Union has been gaining, especially in technical and engineering education. It would appear, putting these factors together, that the Soviet Union will gain on the United States in military potential during the next 20 years, assuming continued political stability.

Morale. The United States has apparently had an advantage. Its democratic institutions, individual freedoms, rule of law and high economic level have given a stake to each citizen and induced loyalty. There has been less discontent, subversion and treason in the United States than in most other countries, and probably much less than in the Soviet Union, though data about the attitudes of Soviet citizens is inadequate. It is true that the pressures for conformity and the abridgment of traditional freedoms and constitutional guarantees has given grave concern to many Americans. For, anxieties about Communist infiltration can induce a "garrison state" attitude destructive of national morale even in such a traditionally free country as the United States.

Custom and consent

At the same time, relaxations have occurred in the Soviet Union in respect to civil liberties and economic opportunities. As the Soviet system evolves, its rulers are likely to find custom and consent more effective means for maintaining their internal power than coercion and terror. Thus, the differential in morale is likely to decline, though the United States may long maintain some superiority.

Reputation. The United States has had a great advantage over the Soviet Union in the period since World War II. In spite of its huge military achievements in two world wars, its maintenance of large armaments and its dominant power position, in spite of the continuous propaganda of the

Communists alleging its aggressive intentions, the United States has succeeded in maintaining a reputation for peacefulness, for support of human rights and the self-determination of nations, and for the will to defend freedom against its enemies. This reputation has been reflected in the ballots cast in the United Nations, which on issues where the United States and the Soviet Union were directly opposed have supported the United States on the order of nine to one.

Reduced reputation

This reservoir of reputation and good will has, however, been considerably reduced. The policies of racial discrimination, the negative attitude toward the international protection of human rights, the suspicion that the United States is becoming more favorable to the colonial powers than to the peoples seeking self-determination, the anxiety about a military policy centering around nuclear weapons and massive retaliation, the tendency to insist that nations must sacrifice independence in policy-making and abandon neutrality in the cold war in order to receive technical or other economic benefits from the United States, the excessive emphasis upon the ideological differences between communism and free enterprise as the basis of international political action—all of these factors have tended to reduce the reputation of the United States, not only among the members of the Soviet bloc, but also among the anti-colonial powers and even among its western allies.

Political decentralization

At the same time, the Soviet reputation appears to have improved. Communism has spread in Asia, in large measure through voluntary acceptance, and has achieved certain successes both economic and political, especially in China. The tendencies of nationalism, probably more persistent than ideology, have suggested, not only in Yugoslavia and in China but also in Poland, that, in the long run, communism can be associated with nationalism and is not necessarily an instrument of Soviet domination. It seems likely that the trend toward political decentralization of the Soviet bloc, as indicated in the Russian statement of October 30, may continue. This may be associated with a greater activity of the Soviet government in the United Nations and its specialized agencies in order to stabilize international relations and promote social and economic welfare.

The Soviet government since Stalin seems to have perceived the opportunity to improve its reputation through such means. It

seems likely, especially with the increased membership of the United Nations, that the great disparity of voting in the General Assembly will be reduced. Thus, the extreme differentials in reputation between the United States and Soviet governments is likely to be reduced during the next 20 years, though with reasonable prudence the United States should continue to enjoy some advantage.

As long as the atomic stalemate continues, the importance of arms-in-being and of military potential will probably decrease, and that of morale and reputation will probably increase. It is likely that while the Soviet Union will gain in relative position in all of these elements, that gain will be greater in the elements of armaments-in-being and military potential. The United States, if it makes progress in solving its domestic problems of race and the avoidance of depressions, and does not abandon its traditional principles of democracy, constitutionalism, individual freedom and national self-determination, will probably maintain its superiority in morale and reputation for many years.

Peaceful coexistence

Considering the field of international relations as a whole, it seems likely that oppositional forces giving weight to military power will decline and the cooperative elements giving weight to reputation will increase. Such progress would depend in no small degree on the extent to which the powers continue to accept the atomic stalemate and peaceful coexistence, the decentralization of the two great power blocs, and the rising importance of the new states of Asia and Africa.

If, on the other hand, the rivalry continues between blocs, each united by fear of the other, by ideological anxiety, by political alliance, and by military coordination, the position of the United States and its allies might seriously deteriorate. In such a world, both the capability of central direction and the rapid strategic change of the Soviet system may have an advantage.

Stabilizing world order

Fortunately, the question of which side time favors is highly problematic. So long as neither side can be certain that time is against it, each can consider possibilities of coexistence and devote its policy not to improving its own power position, but to stabilizing the world order. A conviction that stability is possible and is in the interests of all would augment in international politics the role of the democratic virtues of morale and reputation as opposed to the totalitarian virtues of arms and military potential. ■

AMERICA 1975

SERIES

Government-Industry Relationships

They will become interdependent and more cooperative as the government's role in the economy increases

by Oswald Knauth

THE ROLE of government in the economy has expanded greatly in the past 20 years; the next 20 years will see its economic role become even greater. This is a far cry from the days when it was believed that "the less government in industry, the better" —a policy which forced governmental action into a negative pattern of forbidding acts thought to be antisocial or inimical to the public welfare.

The turning point came in the 1930s when within a decade a major depression and a total war created economic problems of such magnitude and scope that the broad powers of government had to be called into action to prevent economic chaos. One government measure led to another, and gradually the public came to believe that the government could and should help any sector of the economy that seemed in trouble.

The high-water mark was the passage of the Employment Act of 1946 which made the maintenance of full employment a matter of national policy. The government, with this law, became directly concerned with the welfare of all sectors of the economy.

This tendency toward more government intervention in and control over the economy will, I believe, take the form of administrative decrees and court rulings rather than direct competition with private enterprise. The reasons for this view are many, but basic to a discussion of them is the assumption that government intervention is not a one-way street, but a wide, two-way street in which there is plenty of room to slow down, stop and turn around.

We must remember that the power of government over the economy rests not merely on its

power to enforce the law, but also on its power as a consumer. At present, the government purchases from ten to 15 per cent of the national product and in so doing can lay down terms affecting wages, employment practices and business standards which radiate out into the entire economy. Its influence is also felt when, as a producer, the government enters into competition with private industry.

Barring a depression or war, which would necessarily increase government expenditures, the government's importance as a consumer and producer is likely to diminish in the next 20 years. But intervention by law through commissions and courts is here to stay; it has by now become an integral part of our economic life.

To get a better picture of where government power will grow, let us look at the various sectors of the economy individually. Regulation of the money supply, for example, a fundamental need of any economy, has since 1913 been the primary concern of the Federal Reserve System. By stimulating or retarding the credit supply, it can strongly influence the commercial banking system and, through it, the entire economy. As more is learned about the use of such measures as a stabilizing influence, these powers are apt to be increased.

In the field of labor, government intervention is almost certain to become greater. The tremendous growth of labor unions, culminating in the formation last year of the powerful, almost monopolistic AFL-CIO, will force the government to take steps to prevent abuses of power in the way it now prevents abuse of power by big business. Another cry for government intervention will undoubtedly be heard from the consumer-public when the close relationship between a rise in wages and a rise in prices seeps into the general consciousness. As far as collective bargaining itself is concerned, the rights and duties of both labor and management will become more and more a matter of public law.

A counteracting force of uncertain strength is the ability of the labor movement to regulate and police itself. The AFL-CIO, for example, has brought pressure to bear on its independent unions, even to the point of revoking their charters whenever bad practices were discovered. Indeed, based on the newest trends, it seems probable that some practices of today's unions will be regarded in 1975 very much as we regard the business practices of 1900.

Oswald Knauth, Adjunct Professor of Marketing at Columbia University, was formerly vice president and treasurer of R. H. Macy & Co. He is author of *Business Practices, Trade Position, and Competition.*

The farmer is already subject to considerable government regulation. The question of whether government should intervene has been decided by the fundamental economic importance of agriculture and the seriousness of the farm depression. Debate now revolves around which kind of intervention should be used, how far it should go, the degree of flexibility of price supports and the extent of government responsibility for shortages, surpluses and farm prosperity. This intervention will vary with changing conditions, but it will, on the whole, tend to increase in order to insure an ample and reliable supply of food.

Government watchdogs

The government's role in the business community covers business practices, the structure and interrelationships of corporations and even the regulation of whole industries. The stock market might be quite different without the watchdog job performed by the Securities and Exchange Commission. The Federal Trade Commission administers a number of laws designed to protect and encourage free competition and is empowered to issue the legally binding "cease and desist" orders against any unfair or deceptive business practice which it may find.

"Big" corporations have created collusive situations that have long concerned the government, and our corporations, through natural growth and mergers, will doubtless become bigger and more powerful in the future. In addition, new production methods and other technological innovations create new relationships which will be increasingly subject to scrutiny by the Department of Justice. An especially powerful weapon against illegitimate practices has recently been developing in the "consent decrees" reached between the Department's antitrust division and a number of leading corporations. These agreements, arising from antitrust investigations, are an alternative to court action and mark a trend toward closer cooperation between government and industry in the maintenance of free and competitive conditions in all areas of the economy.

Somewhat similar is the situation in regard to mergers. We have long had laws governing mergers to insure that competitive market conditions are not impaired by bigger business complexes which may injure the public interest. Prosecution of illegal mergers is, however, a long and costly operation for the government as well as the businesses involved. As a consequence, big companies planning a merger are approaching the government *before* going ahead, in order to get

an informal opinion on the legal aspects of their contemplated action.

As in the case of labor, business leaders recognize the need for self-policing, but great skill is required to separate legitimate agreement on practices from illegitimate collusion. As the business community grows in size and complexity, so will the government's role as arbiter.

The patent system is another example of the regulatory function of government. A complete overhauling of our patent laws by 1975 can be predicted. Now based on the original principle that individual inventions are the foundation of technological progress, they may be changed to reflect the much more complex, modern method of solving problems and inventing new processes by cooperative research within large corporations.

Direct competition

On the other hand, all manner of public works are called for by the growth of population and the economy. Federal, state and local improvement programs (highways, flood control, sewerage systems) will tend to give government a stronger position in relation to the economy. The bolstering of the economy by region or section can be accomplished through these public building programs, but we will see direct competition with private builders give way to contracts on a cooperative basis.

Foreseeable, too, is the virtual elimination by 1975 of government ownership of factories and power plants (even atomic power plants), although this will be accompanied by a large increase in the number and size of buildings for public use and welfare, such as schools, courthouses, post offices and other government - owned structures. Maintenance of the capital investment in these buildings will insure a strong governmental influence in the economic life of every community.

Valuable services

Apart from the regulatory and participative roles of government, there is the important role of compiling information and performing countless other services. These functions of government are highly valuable and are certain to be expanded as new needs arise. To cite only a few, there are the information and research services for agriculture—the experiments to produce better seed, better breeds, better soil and the educational work of county farm agents. Census data furnish the basis of long-term planning by industry, and their scope will be expanded. The Department of Commerce plays a crucial part in the production of oil by furnishing statistics

which help to keep production and demand in balance. From these statistics, state boards regulate the number of days per month that oil wells are permitted to operate. Waterways are maintained and charted for the benefit of commercial shippers (as well as for naval use and the yachtsman-citizen). And the list of publications by government departments of up-to-the-minute news and information for the business community is almost inexhaustible.

The growth of government and its increasing influence in the economy seems inevitable. But more significant is going to be the change in industry's attitude toward government intervention in its affairs.

Both management and labor are becoming more and more aware of their responsibilities in relation to the rest of the community, and this is producing a new business philosophy which can be roughly characterized as one of interdependence and tolerance. The economic principles of the nineteenth century, which permitted cutthroat competition and individual antagonism in the struggle for short-term profits, will give way to the realization that production cannot flourish in an hostile atmosphere. A natural outgrowth of this is a greater appreciation of the role to be played by government in stabilizing the economy and facilitating sound and even growth.

The old animosity of industry toward government regulation may be as much a thing of the past by 1975 as the ruthless business practices of 50 years ago. An important factor in this change will be the leadership in business, government and labor of the students now in business schools. An intertwining of interests, an atmosphere of cooperation between all parts of the economy—these will be the dominant notes struck with care by the leaders of 1975. ■

Government Ownership

STORIES ABOUT Washington tourists usually have a brief life, but this one has become a classic on Capitol Hill. It seems that a visitor from Arkansas wandered down to the Navy Yard, strayed into a prohibited zone and lost himself in his admiration of a warship, the first he'd ever seen. He was shocked into wakefulness by the angry cry of an officer: "Get out of here. Who do you think you are, anyway?"

The tourist stood fast. "I'm nobody," he replied, "just one of the owners."

It's a big job, but for 160 million people, today's stirrings of economic progress are the realization of long-frustrated aspirations

Latin America on the Move

by Earle K. James

LATIN AMERICA is on the move, slowly pulling itself out of the economic morass it has been in for hundreds of years. Statistics today show a fivefold increase in foreign trade since 1939, a doubling of industrial production, falling death rates and increased life expectancies. The visual impact is also as striking. Brazil's Sao Paulo, a metropolis of concrete skyscrapers swiftly becoming one of the world's great cities, suggests a Chicago in the making.

Less spectacular developments are apparent everywhere—Mexico's extensive irrigation projects restoring long-barren land to fruitfulness; farm machinery pools in Costa Rica; banks in Paraguay helping to publicize and distribute fertilizers; an oil refinery in a Chilean seaside resort; Haitian clinics administering penicillin to combat yaws; steel plants in Mexico, Colombia, Brazil, Peru and Chile.

These are some of the new lines along which Latin Americans are advancing, for the expansion of traditional production has not been the pressing need. Cubans, for instance, have found themselves with too much sugar, Argentines with too much wheat, and Brazilians have had to burn coffee by the ton. Today Latin Americans are tackling lags that have persisted despite a prosperous output of export commodities. They seek a broader economic development in which an increasing number of people can share.

This is important for the United States. Latin American resources are indispensible to us. Moreover,

its peoples—one of the world's most rapidly growing populations —buy 3.5 billion dollars' worth of our goods a year, and would buy more if they had the dollars. Members of the Western family of nations, they support its beliefs and values. In fact, the 20 Latin American republics make up more than a quarter of the United Nations membership. Their economic and political well-being is ours.

Geography a problem

For Latin Americans, today's stirrings of progress are a realization of long-frustrated aspirations. The hope for economic betterment, as well as for freedom, impelled their wars for independence. But if this hope is far from realization today, it is less for lack of spirit than because of certain intrinsic problems, like their geography. Latin Americans have had to face such outstanding difficulties as the second highest mountain masses in the world; the globe's largest expanse of rain forest; wastelands of desert or scrub growth; areas of harshly excessive or deficient rainfall—and so many of these not on the peripheries but in the hearts of the new nations.

Geography also placed most South American nations far from the new tools spurring nineteenth century industrial advances. They had rivaled European achievements in spots, as long as animal and human muscle was the chief source of energy. But the steam engine gave the race to those with coal and iron, which Latin Americans lacked.

The nineteenth century had advanced considerably before industrial nations, beginning to seek more than gold and silver, went after Bolivia's tin, Chile's nitrate and copper, or Mexico's lead and zinc, and spread railroads and steam engines in the process. Agriculture was developed when these foreign nations also wanted the cattle and cereals of Argentina and Uruguay. The opening of the Panama Canal, forty years ago, ended the half-around-the-world trip from Liverpool or New York to Peru, Chile, Ecuador or the Pacific coasts of Colombia and Central America, and brought these regions into our modern world for the first time.

More recent developments are opening up additional frontiers, reclaiming the land, making new areas important and bringing health and productivity to people. Petroleum has brought technology to formerly shunned tropical areas. Scrub forests yield vegetable waxes and resins important to industry. Men search deserts for the ferroalloys or uranium so vital to our atomic age. Exhaustion

Earle K. James teaches a course in Latin American problems at the New School for Social Research.

of our seemingly abundant iron resources turns the United States to the immense deposits in the Orinoco hinterlands of Venezuela. Thus, a stark economic necessity is bringing ships, railroads and machines to a region which has long been wilderness. The airplane now links New York or Paris to areas which were once accessible only through jungle and mountain trails.

Tools and trends

The tools and trends of a new age, however, do not simply bring Latin America into step with our advanced machine economy. Latin Americans know well that the problems they face are of sobering variety and complexity. The land area, spanning some seven thousand miles from above the Tropic of Cancer to near the Antarctic, is not homogeneous. Latin America is made up of big countries like Brazil, fourth largest nation in the world—larger than our continental expanse or Europe outside of Russia—and tiny republics like El Salvador, a trifle bigger than Vermont.

Then, too, natural resources are very unevenly distributed. Argentina with its fertile farmlands—and Buenos Aires, Latin America's largest city—is short of coal and iron for its industries. Uruguay and El Salvador have virtually no minerals, and in each the chief agricultural industry—livestock in the former country, coffee in the latter—is already using the available land. Bolivia, rich in minerals, has insufficient farmland, at least on the highlands holding about two-thirds of its people. Brazil, the giant most in need of oil to fuel its industry, has not yet found economically feasible deposits. Venezuela, with roughly one-tenth of Brazil's land and people, has huge quantities of oil, enough to make her the world's second largest exporter.

Latin America's 160 million people also vary. They include an Indian population in Guatemala, Ecuador, Peru, Bolivia and Mexico. Venezuelans are almost entirely a fusion of Indian and European blood, the most common ethnic blend in Latin America. Uruguayans, Argentines, Costa Ricans and Chileans are predominantly of European stock. Brazil's 55 million people represent almost every continent, with large numbers from Africa and some from Asia. Africa is also represented in the Caribbean countries, and dominates, of course, in Haiti, the world's first Negro republic.

Each of these groups has contributed to Latin America's achievement. But the number of people and their distribution has sometimes adversely affected economic development. Brazil, for instance, has a third of all Latin

Americans; Costa Rica and Panama have fewer than a million each. Haiti's three million or more are crowded 300 to the square mile on eroded mountains; while Bolivia, almost 40 times as large, has such vast empty spaces that its three million, jammed thickly in the highlands, could be spread out three to the square mile.

Eddies of progress

This uneven distribution has heightened the problems of health, education and poverty which make many Latin Americans ineffective participants in society. Far too many live in the exasperating eddies of progress, especially those isolated geographically or by the aloofness of Indian cultures. Turning wasted human resources into fruitful ones, the program so energetically undertaken by Mexicans after their revolution, is the great problem Latin Americans have been trying to solve.

In Argentina, as in Uruguay, a prosperous cattle and cereal economy was created out of the frontier. Immigrants populated the empty pampas; Argentines built modern cities and institutions almost from scratch. Geography, time and products combined to repeat in Buenos Aires so much of what happened in Chicago, with new farm wealth and new peoples shaping an agricultural economy that proved an excellent base for political, commercial and industrial growth. Much the same happened in Brazil, where coffee transformed the empty frontier around today's phenomenal Sao Paulo. The basic task in such countries is for these modernized centers to spread their progress nationally.

But in Mexico, nineteenth century economic forces entered a land laden with colonial traditions. Railroads and money helped buttress government by the privileged. Foreign capital, invested in farmland, created large *haciendas*, vast estates worked by serf-like labor. Mining was chiefly for foreign markets. It took bitter revolution to shatter the anomalous colonial-modern hybrid and launch a modern Mexico. Parts of this story have been repeated elsewhere, as unfortunate colonial heritages, isolation and exploitative enterprises combined to prolong economic and political instabilities. In some countries, like Guatemala, the correction of profound social and political lags is a requisite to broad economic advance.

Modern vs. primitive

Not only must the heavy hand of privilege be lifted, but also the gulfs between the modern and the primitive must be reduced throughout Latin America. Be-

yond Sao Paulo's skyscrapers is an age-old slash-and-burn agriculture; beyond Lima's boulevards people scar the earth with digging sticks; and almost everywhere burros, oxcarts or human backs transport the freight of sky cruisers.

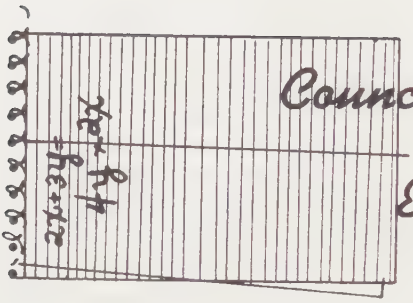
Urban modernity, side by side with rural backwardness, is a major problem in Latin America's development. Since colonial times, the cities have created and absorbed progress. They still initiate and receive most of the export wealth, support the engineers or neurosurgeons, import the air conditioners or electric computers. Meanwhile, in the rural areas one finds rutted dirt roads and adobe shacks, low productivity and purchasing power, illiteracy, ill-health and a dearth of tools and opportunities.

The rural areas offer the difficult challenge. Bulldozers cannot rip through social heritages as they plowed through ancient plazas; nor can progress for human resources be as easily realized as blueprints for power plants. Industrial progress fostered by export commodities offered a lure and the tools which brought spectacular urban advances. But Latin Americans realize that this growth is shallow without equal development of the countryside.

At the bottom of this is a farm problem. About six of every ten Latin Americans are farmers, yet population growth has outstripped their production. Far too many toil at a primitive subsistence farming; too many others lack the tools and the services that nourish prosperous farming. Sound economics, as well as humanitarianism, demands that the modern farming methods found so largely in export crops be spread elsewhere. Latin American farming has been tied to a few commodities, and to shifting, precarious, foreign markets.

Big job ahead

Progress calls for greater domestic production of foods and raw materials. Progress in industrial growth calls for expanding purchasing power. Both aims require the release of peoples from penurious land toil and their employment in varied activities of modern life. Unfortunately, such aims are not easily achieved, especially when isolation must be overcome, geographical difficulties dealt with, backward traditions changed, and the people given access to roads, schools, gasoline, government services and markets, as well as tools, pesticides and credit. It is a big job—but one that Latin Americans, aided by our agencies and those of the United Nations, are now tackling with vigor. ■



Council of Economic Advisers

by Arthur L. Moore

The effects of economic fluctuations can at least be moderated by government action based on professional planning and advice

TEN YEARS AGO, haunted by fears of ten million unemployed, Congress decided on an experiment. It passed the Employment Act of 1946 which created the Council of Economic Advisers —three professional economists who were to sit at the right hand of the President. Their job was to help keep the country from going into periodic slumps. It was a new idea—and one that aroused strong feelings.

Ardent supporters of the idea hailed it as "the Magna Charta of economic freedom for the common man." A New York newspaper speaking for the opposition, saw just the reverse: "Perhaps the most serious threat to free enterprise and Democracy which the country has faced in the 170 years of its existence."

After ten years of trial and error, it is plain that the Council has lived up to neither billing. It is not the economic miracle worker its most ardent backers hoped for. We have had two recessions since it was established —one in 1949, and the other in 1953. In both instances unemployment rose toward the danger mark. Moreover, during the same decade, we have witnessed a 50 per cent rise in consumer prices—proof that the Council has not thus far proved to be a cure-all for our economic troubles.

Yet, in the same period, the basic goals of the Employment Act have been met to a surprising degree. These goals are maximum employment, production and purchasing power. We have done well on all three counts during the past ten years. The recessions did not turn into major slumps; employment is setting new records; unemployment is reasonably

low; production has expanded; and wage increases have outstripped prices, thus maintaining purchasing power.

No one would seriously suggest that the existence of a Council of Economic Advisers has brought all this to pass, or, even that the Council has meant the difference between prosperity and depression. But in the judgment of leaders of both political parties, the Council must rightly be given at least some of the credit.

The Council has proved its worth to two Presidents—one a Democrat, the other a Republican. It has operated under three chairmen and in diverse economic conditions. What it is empowered to do, how it operates, whether its advice is accepted or just used as political window dressing—these are questions of increasing importance to everyone interested in our economic welfare.

The Council consists of a chairman and two members who are appointed by the President with the approval of the Senate. The key to its influence is its relationship with the President. The Council itself is not empowered to determine policy; it can only counsel the President, who must make the decisions himself. A President who does not trust economists can disregard everything he is told by the Council. He might turn to political cronies for economic advice, or he might depend on the staffs of the Treasury or Commerce Departments. Often these Departments bring the President advice which conflicts with the views of the Council. In such cases, the President must decide which to adopt.

In practice, the Council has had widely varying influence. President Truman gave Council chairmen friendly hearings, but did not depend on them as a primary source of guidance. President Eisenhower confers regularly with the present chairman, Dr. Arthur F. Burns, and rates his advice on a par with that of his most influential cabinet members.

The first chairman was Dr. Edwin C. Nourse, a professional economist of excellent standing. He organized a staff of approximately 30 economists and statisticians, and established a high standard of competence which has been a hallmark of the Council's operations ever since. Nourse had firm views about the proper function of the Council and the role of the chairman. He insisted that the Council existed solely to provide confidential, professional advice to the President. He therefore refused to appear before Congressional committees to answer

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Arthur L. Moore reports on the American economic scene as viewed from Washington for the McGraw-Hill Publishing Company.

questions about the nature of his advice.

The second chairman, Dr. Leon Keyserling, was a member of the original Council, serving under Nourse. He had a long career as a government economist, running back to the New Deal. He differed with Nourse on the role of the chairman. He was willing at all times to appear before committees of Congress and made frequent speeches around the country, not only to explain the advice he was giving the President but to defend Mr. Truman's economic policies. Thus, he frequently was engaged in debates with Republicans and others who disagreed with the aims of the Truman Fair Deal.

Keyserling was replaced by Burns when the Eisenhower administration took office early in 1953. For a time it looked as though there would be no Council at all; money to maintain it was refused by Congress and the entire staff was dismissed. Powerful Republicans wanted to be rid of the Council, but President Eisenhower finally recommended its continuance and Congress agreed. Burns, formerly Professor of Economics at Columbia University and Director of Research for the National Bureau of Economic Research, is one of the country's leading authorities on the business cycle. His two fellow Council members, Dr. Joseph S. Davis and Dr. Raymond J. Saulnier, are also men of top standing in the profession.

Burns leans toward the Nourse view of the role of a chairman, with one important difference: Burns appears once a year before the Joint Congressional Committee on the Economic Reports. He testifies in executive session, and thus protects the confidential nature of his advice to the President. So far as the public is concerned, he has returned the role of chairman to one of humble anonymity. Since becoming chairman almost four years ago, he has held only one press conference; and he makes few speeches. But in the administration's inner circle, Burns is probably the most influential chairman thus far.

Chairman is responsible

For one thing, Mr. Eisenhower made the chairman solely responsible for the Council's operation, whereas under previous regulations the three members had almost equal status. Mr. Eisenhower also increased Burns' stature by establishing the Advisory Board on Economic Growth and Stability, with Burns as chairman. The Board consists of key officials from executive departments such as Treasury, Commerce, Labor and Agriculture, plus officials invited from such

independent agencies as the Federal Reserve Board. It meets weekly, and is a means of channeling the views of the Council to all areas of the administration.

Rare diplomatic feat

Mr. Eisenhower looks on the Council chairman as his chief of staff for economic advice, and as such Burns enjoys virtual cabinet status. His views get respectful attention throughout the administration because officials know he has the backing of the President. At one time last year, for example, when Burns thought housing credit should be tightened, he was able to prevail on the Veterans Administration to require a down payment on GI mortgages —a diplomatic feat which Presidents themselves might have felt lucky to obtain in the past from that extremely independent agency.

The influence of Burns and the Council in recent years can be detected in a number of key issues. The Council played a role in developing the highway improvement program that was enacted early this year. It recommended expansion of Social Security coverage, and an increase in the minimum wage—actions later approved by Congress. It has argued for special help to depressed areas in the U. S., such as the Pennsylvania anthracite region. The Council recommended changes in the tax law to stimulate business investment, and its suggestions became a part of the Revenue Act of 1954. It has opposed tax reductions during the last few years on the grounds that a reduction in the midst of the boom might serve chiefly to raise prices.

However, the role of professional economist in Washington—even when backed by a popular President—is not easy. In the give and take of Washington, the Council sometimes sees its advice accepted, sometimes sees it rejected.

On balance, the experiment voted by Congress ten years ago has achieved a solid success in Washington, and the Council's prestige is probably higher today than it has ever been. The encouraging experience of the past decade does not prove that the government knows how to prevent major depressions. But the mere existence of the Employment Act itself, with its solemn declaration that the government will take action to halt a major slump, is an economic factor of great importance on the side of stability.

The evidence mounts that the effects of economic fluctuations can at least be moderated by timely government action and that professional economic planning and advice can be of great service in any President's attempts to encourage growth and stability. ■

Americans are becoming more theater-conscious; as a result, Broadway and "little" theaters are hanging up the old sign:

STANDING ROOM ONLY

by Hy Hollinger

THE ADVENT of talking pictures, as everyone knows, almost crippled the live theater. It has operated as a "fabulous invalid" for more than 20 years, always reported dying yet somehow never expiring. Now the medium that administered the near death blow to the stage is itself engaged in a struggle for survival with television, while the erstwhile invalid is enjoying an amazing recovery.

The 1955-56 season saw the theater, on Broadway and the "road," amass a record gross of over 58 million dollars, representing a ten-year peak and an increase of nearly five million dollars over the previous season's 53-million-dollar high. The Broadway take was 35 million dollars; that of the road 23 million dollars.

Figures, of course, attest to the commercial comeback of the theater, but they do not convey the strong revival of interest in the most ancient of entertainment forms. Additionally, these statistics represent only the income from the prime source—the Broadway theater and that part of it which tours key U. S. cities.

The theater in this country is more than Broadway and its traveling offshoots. It is Greenwich Village and Second Avenue in New York, the commercial summer theaters consisting of the so-called converted barns and the fast-developing, circus-like tents, the educational theater affiliated with colleges and universities, and the community theaters, of which there are some 1,500.

There are a number of influences which are reviving interest in the live theater in this country. There is a new, determined and widespread educational drive, as evidenced by the huge sales of paperback books dealing with philosophy, history, economics and science; the larger enrollments in schools and colleges; and the increase in adult education. More and more people are finding time for the cultivation of the arts, and the theater is attracting a large portion of them.

Theaters affiliated with colleges and universities have also contributed to the revival. The campus playhouses expose, perhaps for the first time, millions of young people to the theater during their formative years. College English and literature courses also provide similar indoctrination. With some 400 colleges granting degrees in the theater, tens of thousands of graduates have acquired a background in dramatics. The most talented have gone to the professional playhouses of Broadway; the others have developed into a hard core of ardent theatergoers and provided many American cities with the leaders of the community and "little theater" groups.

Community theaters have flourished in the United States even though they do not receive a state subsidy as they do in Europe. They have made marked advances during the last decade, sprouting from small groups who put on plays for their own amusement to well-organized, serious-minded undertakings which have become an integral part of local cultural and community life. To be sure, their contributions are varied, running the gamut from impressive artistry to stark amateurism.

Quite a few companies are well-financed, staffed and supported. Many have progressed to the point where they can afford a paid general manager, director and scenic designer, and some also pay the actors. Essentially, however, the community theater is a recreational theater and, in most instances, is operated as such. The hiring of professionals to guide and supervise volunteer talent is done with the understanding that good productions mean good business. More important, however, is the fact that the community theater is a civic endeavor, utilizing the citizens of all walks of life and providing inexpensive and frequently provocative and cultural entertainment to areas not serviced by Broadway touring shows.

The support of local citizens, who by their contributions are similar to the "angels" of Broadway, is responsible for the exis-

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Hy Hollinger is a member of the staff of *Variety*, weekly trade paper of the entertainment world.

tence of community-supported theaters in Cedar Rapids, Iowa; Dartmouth, Mass.; Sioux Falls, S. D.; Midland, Texas; and Owensboro, Ky., to name just a few.

What is happening on Broadway —the conversion of movie palaces to legitimate theaters—appears to be taking place in smaller cities, too. For example, in Cedar Rapids and Sioux Falls, the community theaters recently purchased local movie houses. The reconversion task often becomes a community project, with volunteers contributing to the clean-up and building efforts. The community theaters are also active in lending their services to civic clubs, veterans' hospitals and charity drives.

Television, while seriously harmful to movie attendance, has had little or no effect on the theater. Going to the theater—whether on Broadway or in Council Bluffs—remains a special occasion, involving pre-planning and the purchase of tickets in advance. It does not represent the choice of watching television at home or going to the movies. The theater, in addition, offers themes and subjects that neither television nor movies dare to touch, a consideration that draws a more educated and sophisticated public.

In a sense, TV has become the ally of the Broadway theater by providing employment for actors who are between Broadway shows. Actors who had gained national reputations as a result of their efforts in motion pictures have been returning to Broadway since Hollywood cut down on movie production. These performers provide potent marquee bait and serve to lure their followers to the legitimate theater.

The summer theater, mostly commercial but partly community, has played an important role in spreading live theater from Maine to California. Although faced by rocketing production costs and the salary demands of stars, the summer theater enjoyed one of its best seasons this past year. Of 162 summer theaters bonded by Actors Equity Association, only two were forced to close their doors because of the lack of business.

Outdoor theater projects

An important development of the summer theater is the community-sponsored outdoor projects, some of them offering free performances to audiences who have never before seen live theater. Lower income groups of New York's East side, for example, enjoyed intelligently produced plays of Shakespeare this past summer at a Park Department amphitheater along the East River. Cities such as Philadelphia and St. Louis have offered low-priced summer theater for many years.

The newest attraction of the

summer circuit is the tents or the "canvastops." The circus-originated enclosures have become familiar landmarks in resort and suburban areas. Because of their larger seating capacity, they have been able to provide more elaborate productions, concentrating mostly on musicals. The Barnum-like atmosphere that is provided with the stage entertainment has made the "canvastops" ideal centers of family entertainment, thus building additional audiences of potential serious theater-goers. The tents have been welcomed by local communities, since they employ local help, spend money for supplies and draw people to the area.

Vast new audience

The growth of off-Broadway—the little theater movement on the periphery of the Gay White Way—has been a post-World War II phenomenon. It cannot be measured in terms of financial achievement, although there have been several individual success stories. Operating with the cooperation of entertainment unions, it has been able to provide excellent theater at reasonable admission prices. As a result, it has tapped a vast new audience of theater-goers, indirectly cultivating potential customers for the more expensive and more commercial Broadway theater.

The high costs of a Broadway production, the shortage of legitimate theaters, and the presence of an abundance of young and ambitious actors, directors and producers who had returned from war service fostered and developed the off-Broadway theater. Old, abandoned theaters and night clubs, lodge halls and loft buildings in areas away from the high-rent, bright-light district became the centers for productions of Shakespeare, Shaw and Chekov.

Broadway exists on a "smash hit" basis. Only lavish musicals and popular comedies and dramas can emerge profitably in the Broadway zone. Off-Broadway fills the void, offering classical drama considered too highbrow or uncommercial for the taste of Broadway. The type of theater and the quality of the productions offered in New York's theatrical suburbs so impressed the critics and public alike that many prominent Broadway performers have offered their services to these theaters at the off-Broadway minimum wage scale.

Under present conditions, a strong economy is essential for the theater. It remains, especially the Broadway theater, a luxury item. Should there be a recession or a depression, it stands to be hurt. Perhaps it will never again be too seriously invalided because of the influences that have succeeded in making more Americans theater-conscious than ever. ■

GROWING PAINS?

They have been minimal in the last decade, for rapid expansion interrupted by the gentlest of recessions has been our fortunate fate

by Robert Lekachman

ONE OF the most cheerful events in the world is the sight and sound of a factory under construction. It is a visible token of the employment of carpenters, masons, bricklayers and other assorted craftsmen. And it is a promise of much to come: larger payrolls and more spending in the community, expansion in residential housing, increased contributions to local charities and other community activities, and the participation of plant executives and workmen in the life of the city.

Such is the rapid pace of technological development that new plants almost invariably incorporate labor-saving devices, materials-handling advances, and the latest novelties in management control. The new plant is a major element in that happy cycle of greater productivity, rising incomes, enlarged spending, expanded profits and renewed investment, which has made possible an average annual increase of three per cent in our per capita output of goods and services over the past century.

There is every hope and prospect that these durable achievements will continue and that in time even the four-day week and the well-endowed old age envisaged by political candidates will be achieved. *But there are costs as well as pleasures in progress.* The problem for the citizen, and still more for the official and the economist, is to compare, however roughly, the magnitude of these gains and losses.

A simple principle may aid the understanding of this thorny problem. When change takes place during a period of small or no expansion in our population and gross national product, then it must be painful to workers whose jobs and skills are rendered obsolete, capitalists whose investments suddenly lose their value,

executives whose companies shrink or disappear, and communities whose industries move or contract. For, by definition, when the size of the economic pie is fixed, no one who loses his slice will get another to replace it.

The case is quite different when technological change occurs within the matrix of an expanding economy. Then the new factory may well represent a net addition to the community's productive facilities, and old factories will continue comparatively undisturbed. Small communities will grow larger, but large communities will not shrink. Perhaps expansion will take the shape of new industries manned by young people just entering the labor force and women adding to their families' incomes. And even when expansion makes a particular skill obsolete, the expanding economy offers more opportunity to a displaced worker in finding alternative jobs than can the stationary economy.

Therefore, in evaluating the importance of the possible adverse effects of technical change, it is important to ask whether the economy is stationary or expanding. The impartial observer will be likely to assess these adverse effects very differently for different countries and indeed for various periods in the life of the same country.

New factories mean new processes. New processes demand that workers acquire new skills and may consign to oblivion their old skills. When the linotype machine superseded hand typesetting, not all compositors were able to learn to operate the new machine, despite a program of labor-management cooperation which at least offered them the opportunity to do so. Inevitably, here as elsewhere, older workers were the least adaptable and, just as surely, these mature craftsmen had the largest family responsibilities, the most sizable investments in homes, the most at stake in general in their communities.

What can the skilled worker do when technical progress that benefits the society at large overtakes and damages him? Perhaps he can shift jobs, although age remains a barrier to entry into many occupations, especially in an age of pension programs. Even if he does successfully shift, he is very likely to work as a beginner at much lower rates. Worse, his new job may force him to move to a new town. The more efficient textile and synthetic mills opened in the South have caused unemployment throughout New England. Why do not the unemployed move to the South?

The answer seems to be that de-

Robert Lekachman is Associate Professor of Economics at Barnard College.

spite a rate of mobility which is the wonder of the world, Americans, too, cherish the complex human associations built during long residence in one place. Apparently there is no industrial center, however unattractive to the outsider's eye, that lacks values enhanced by friendships and custom precious to many of its inhabitants. It is for reasons of this nature—not readily measurable in money—that workers accept lower wages, partial unemployment and an uncertain future in preference to migration.

Traumatic experience

Those who migrate suffer a loss perhaps most damaging of all—an increase in insecurity, an uncertainty of status. A major experience of a man's life is his work at which he spends most of his adult years. His payment is more than money; it is also the feeling that he has achieved a defined position in relation both to those superior and inferior to him. Technological displacement can be a traumatic experience because it causes the worker to reassess his position in the social scale. Even when his conclusions are not unfavorable, he may reflect that the next change could be worse. One price of progress is uncertainty.

This uncertainty, it might be said, inevitably spreads. The young worker entering industry can be reasonably sure of one proposition at least: the nature of his job will change during his working life. Perhaps its location will also change. If he is wise, he will prepare himself for a series of shifts in status, skill and residence. If he learns to accept these shifts, he will prove his supreme fitness for a society that lives by progress.

The new plant also brings much good to the community. But what harm accompanies the good? Economists used to point to the smoke of factory chimneys and the pollution of streams by industrial wastes as necessary social costs of technical progress. It has since been established by improvements in smoke and waste control that these costs were unnecessary. More serious problems now have to be faced. Of these, the most important is a sudden upsurge in population.

The first impact of strain may be physical. Schools bulge, classes are staggered, teachers are overworked and the quality of education falls. Hospital care, police and fire protection suddenly prove inadequate. Traffic problems multiply.

But this is not the end of the matter. When a plant is built in a community which previously had little or no industry, the very character of that community ap-

pears to alter. An influx of workers from other parts of the country brings with it contrasting, even conflicting social habits. An extreme illustration is Detroit's transformation by the automobile industry. With this tremendous industry came many thousands of workers—Negro and white—from the South. They brought with them southern attitudes and these attitudes, when they conflicted with quite different northern views, produced recurrent tensions punctuated by occasional race riots.

Canons of taste

Even when the community is spared upheaval of this nature, its face changes. New workers buy new homes. The new houses of industrial workers, as they translate pleasant tree-shadowed towns into a collection of real-estate subdivisions, may offend the canons of taste of old residents. The merchants of the town cater to the likes of new customers, and the business and amusement center of the town suffers a like transformation. Old inhabitants finally face the ultimate indignity; they lose political control of their community to the newcomers.

Whatever the problems of those areas into which plants move, such communities can console themselves at least with the prosperity they enjoy. Others may lose something and gain nothing. When their industries decay because corporations establish new plants in other cities, at worst the community decays with them. Tax rolls shrink, public services and private amenities are curtailed. Young people, restless at the lack of opportunity facing them, migrate to other cities or states. The community comes to live mainly on its memories, and it may become a home for the aged.

Striking social costs

At best, as in a community like Danbury, Connecticut, which reacted vigorously to the decline of the men's hat industry, local citizens contrive to attract new plants by a variety of inducements which often include tax concessions and subsidized rentals. The economic health of the community may be restored but at the price of retraining, wasted skills and major upheaval.

These are some of the more striking social costs that progress can bring. Historically there is no doubt that these costs can be very great, possibly great enough to outweigh the gains, at least in the lifetime of the generation which endures the one and enjoys the other. The Industrial Revolution in England is a fair illustration of the tremendous change that altered the manner of life

of the English people. It moved them from the farm to factory, destroying old crafts and substituting impersonal machine labor. It crowded the people into aesthetically revolting and hygienically dangerous cities and probably diminished the welfare of Englishmen in the first part of the nineteenth century. The compulsory industrialization of Russian industry and the forcible collectivization of Russian agriculture surely constitute in our time an even more striking example of the pains of progress.

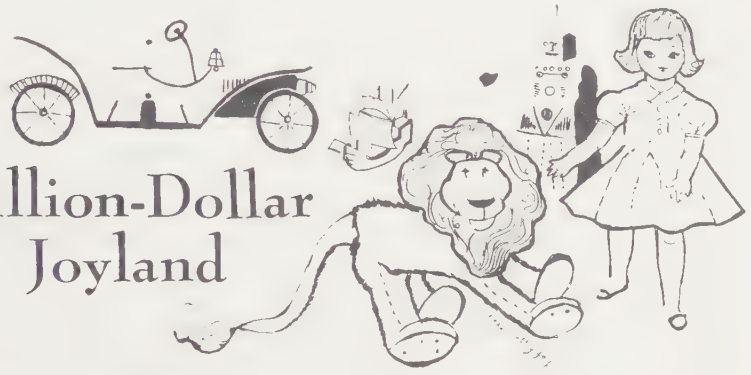
How far do these historical parallels illustrate our own experience? It is probably fair to say that the technological advances of the 1930s in this country resulted in much damage to workers and communities. At that time we were closer to the shifting of resources within a stationary economy that we were in the 1920s. But in the post-World War II era the pains of progress for Americans have been at a comparative minimum, for rapid expansion interrupted by the gentlest of recessions has been our fortunate fate. Patches of unemployment and some declining communities attest, nonetheless, to the proposition that even in the happiest of economic times some workers will be left behind, some communities will be damaged, and some businessmen will lose their investments.

Generally, the last decade of expansion has brought more pleasure than pain, and more security than insecurity. Nevertheless, we must keep in mind that it has not always been so, and that in the future technical change in an otherwise static economy may again exact high costs. ■

Boom in Public Works

STATE AND LOCAL governments spent almost 60 billion dollars between 1947 and 1955 to finance public works projects, primarily on highway and school construction. This was as much as state and municipal governments spent in the entire 45 years between 1900 and the end of World War II. Highway construction took the bulk of the money: 22.5 billion dollars from 1947 to 1955. School construction expenditures amounted to almost 14 billion dollars in the same period. The high level of state and local capital outlays has been one of the significant influences on the economy and its expansion. The level has been maintained by extensive borrowing. In 1955, approximately 60 per cent of the 10.7 billion dollars spent on public works by state and local governments was borrowed money.

Parents on a Christmas buying spree will cram the stockings of 18 million children with dolls and toys. For manufacturers it's a



Billion-Dollar Joyland

by Melvin Fiske

THE LAND of make-believe is bounded on the north by Santa Claus, on the west by department store toylands, on the east by supermarket toy sections and on the south by imagination.

Inhabiting this immense and exciting world are more than 48 million little people, ranging in age from one month to 14 years. They haven't any money, but their influence is great enough to pry more than a billion dollars a year out of the pockets of their parents, uncles, aunts and other assorted members of the neighboring state of reality.

In the two months before Christmas these realists will have spent more than 700 million dollars just to supply the little people with the knicknacks, baubles and gimcracks that turn the wheels of industry—and idleness—in make-believe land.

Enough railroad trains and trackage will have been sold between November 1 and December 24 to create the largest railroad system in any world. By that time, too, more than 20 million dolls will have been born, five times greater than the birth rate in the U. S. More households, complete with everything from furniture to tea sets, will have been established to keep pace with the rising doll rate. Five million more bicycles, tricycles and pedal cars will be taking to the highways and byways by Christmas time. And a new crop of scientists and engineers will start their training with the chemical and construction sets they'll get Christmas Day.

As a matter of fact, there's lit-

tle difference between the type of materials produced in the world of reality and the materials manufactured for the land of make-believe. Other differences that may exist do not matter to little people like one four-year-old who said to another, "You should see my new baby brother. He just came from the hospital. He cries, he drinks from a bottle, he wets and he sleeps. Just like a *real* doll."

"Real" dolls and real anything, toy manufacturers have found, sell best. Last year the reality was extended to a doll with moving lips, a praying doll that recites "Now I lay me down to sleep . . .," a fire boat that shoots a ten-foot stream of water, an aerial ladder fire truck with a portable electric searchlight, a jet launching platform that fires an atomic rocket and a wrecking truck complete with a smashed-up car.

Wild-West market

And where reality isn't yet established, the toy makers borrow from the growing world of make-believe, enlarged by the imagination of television writers and actors. As a result, Roy Rogers has organized more posses of two-gun kids than were ever gathered in all the horse operas turned out in Hollywood. Rogers' name is even sponsoring—and also selling—roller skates with silver spurs and jeweled straps. Rogers alone spurred the toy industry's 250-million-dollar-roundup in the Wild West market in the last five years.

Now the toy makers are taking off into the great unknown with Space Cadet. The little people are becoming pint-sized men from Mars, blasting away at intruders with weapons that spit sparks and smoke, encasing themselves in one-way space helmets (you can see out, but not in), and equipped with solar compasses and astrological road maps.

Other TV characters are well-established pitchmen for the toy makers—and, of course, the cereal, crackers, soft drink and clothing industries. These characters keep the toy making business as fluid as the ratings of children's TV programs. Characters come and go, but the toy business gets them going and coming.

There are a few hardy perennials among toys, however. The hardiest is the Teddy bear, which, since it was first stuffed in 1903 by Morris Michtom, a Brooklyn storekeeper, has fathered more than 150 million replicas. It also led to Michtom's founding of the Ideal Toy Corporation, now the largest doll and plastic toy factory in the world.

After seeing a cartoon of a bear cub that had wandered into President Theodore Roosevelt's hunting camp, Michtom cut up an old piece of brown plush and stuffed it with

straw. He put the stuffed animal in his candy store window and was besieged by orders for "Teddy's bear." Michtom wrote President Roosevelt, and asked for permission to use his name for the stuffed cub. Roosevelt consented but added, "I don't think my name is likely to be worth much in the bear business."

The name, however, is the only thing that hasn't changed about the Teddy bear. Today's stuffed bear is made of new synthetic material that is washable, mildewproof and non-allergic, a far cry from the play bear that could not be washed in its lifetime and wore accumulated layers of baby food, dust and dirt. And for the Ideal Toy Corporation, Teddy bears now constitute about two per cent of the company's business.

A giant in toyland

The bear put Michtom in the toy business, but an endless chain of dolls down through the years built Ideal up to a giant in the toy industry. Louis Marx & Company is the largest toy manufacturer in the world, and Ideal ranks close to it in over-all toy production. Ideal, however, outstrips the field in manufacturing dolls, and last year placed more than three million on retail shelves.

The dolls are produced in Ideal's huge Hollis, Long Island plant, a reconverted aircraft factory. Three blocks long, one and half blocks deep and five stories high, the plant is jammed with complicated looking machinery and long assembly lines. At peak production in the months before Christmas, 3,500 employees turn out 20,000 dolls, 4,000 stuffed animals and 100,000 plastic toys a day.

During the rest of the year, Ideal keeps 2,500 employees busy producing replicas of 2,000 different toys. To level off the seasonal peak, Ideal has introduced a new marketing plan to the retail trade. It offers dolls and toys to stores at a discount if shipments can be made months before the Christmas rush. Ideal now keeps a steady flow of toys going out of its factory. It also has filled in the summer valley by introducing hot weather specials, such as plastic swimming pools, boats and water toys.

Other top manufacturers have stabilized their production in the same manner to meet the demands of the increasingly competitive—yet unique—industry. This uniqueness arises from the relative stability the industry enjoys during times of business recession. The depression, for example, had little dampening effect on the toy business. The last thing parents economize on are their children's passports to the land of make-believe. ■

Economics in Action

housing still slow

With auto production back in full swing, the per-sistent low level of activity in the residential housing field is in sharp contrast to most other sectors of the economy. Home building took a more than seasonal drop in September with only 93,000 starts, 8,000 fewer than in August and 21,900 below September 1955. On a seasonally adjusted basis, this meant an annual rate of one million units, the lowest since January 1952.

mortgage money eased

The government moved to alleviate the tight mort-gage money situation, generally conceded to be the primary cause of the housing construction slump, by lowering down payment requirements for government-guaranteed mortgages on lower-priced homes and easing the flow of mortgage money through government agencies. But builders feel these measures, though a step in the right direction, do not go far enough.

economy booming

Looking around the country, however, business-men saw plenty of other things to cheer them. Employment continued to set records. The September total of 66.1 million employed, though down 700,000 from the August level because of such seasonal factors as the return to school of students and teachers, was a record for the month and about 1.3 million greater than September 1955. Unemployment, at the same time, fell to one of its lowest levels in nearly three years. Personal income in August was at a record annual rate of $328 billion, $4 billion higher than in July and about $20 billion above August 1955, mostly as a result of higher wages and salaries. Both these factors showed up in the continued heavy volume of retail sales, which were running 4 per cent ahead of last year.

new records

The general health of the economy seems evident in over-all statistics. The Federal Reserve Board's industrial production index for September was 144, equal to the record set in December 1955. Gross national product for the third quarter was being estimated at an annual rate of about $410 billion (first quarter, $403.4 billion; second quarter, $408.3 billion) as compared with the $390.9 billion in 1955.

interest rates up again

The rosy outlook failed, however, to detract from the concern of businessmen over the continued advance of interest rates in the past couple of months. Beginning in the fall of 1954 and gathering momentum during 1955, interest rates have been rising, and in 1956 were carried above their 1953 peaks. The Federal Reserve discount rate, which establishes the cost of money for commercial banks, now stands at 3 per cent, compared to 2¼ per cent a year ago, and the commercial banks have adjusted their rates accordingly (the prime loan rate, for the best risks, has been raised to 4 per cent, compared to 3½ per cent a year ago).

Federal Reserve policy

The Federal Reserve policy is, of course, designed to curb the inflationary pressures present whenever the demand for credit has far exceeded the supply of lendable money. Its immediate purpose is to reduce the demand for credit by making money more costly. Its ultimate consequences are largely a matter of guesswork. "Tight money" could slow expansion or depress sales dependent on mortgage and instalment money to a point that would touch off a business downturn. The inescapable signs of continued vigorous business activity offset these fears for the present.

need for savings

But potential inflation dangers remain in the current money picture and will constitute a real problem for the foreseeable future. The first steps to a sounder economic climate would be, of course, to increase savings and productivity. The annual rate of savings is

already up to 7.4 per cent of disposable income ($21.2 billion a year) compared to 6.3 per cent last year. But the rate should be 8 per cent or more to sustain our present rate of economic growth. On the other hand, a rise in industrial productivity is already assured for the next year or two as a result of the greatly expanded and improved manufacturing facilities under construction.

high cost of money

Meanwhile, the high cost of money is a fact of economic life for everybody everywhere—from the corporation president looking for money to build a new factory to the housewife buying a new washing machine on time.

* * *

election aftermath

WASHINGTON—A special set of circumstances made it certain that the national administration would remain in the hands of the GOP. These circumstances, when spelled out, read PROSPERITY and EISENHOWER.

Until the last weeks of the campaign the President's reputation as a man of peace enhanced his cause tremendously. The gathering war clouds in Eastern Europe and in the Middle East added to the President's luster as a great wartime leader. First in war, first in peace, and, apparently, first in the hearts of his countrymen; Eisenhower was unbeatable.

Eisenhower's coat tails

But the President ran far ahead of his party. Republican organizations all over the country must now make a choice between Eisenhower Republicanism or pre-Eisenhower GOP ideals. Four years from now the Republican party will have to run on its own, and whether it can win without Ike's brand promises to produce bitter debate and internal struggle.

isolated groups

The Democratic organizations are all but shattered everywhere. If a serious recession does not develop, the so-called common man will continue to gainsay his traditional loyalty to the Democrats. A swelling revolt by northern Democrats, who feel they have lost

because of compromises with the South, will plague the national Democratic organization. Barring the emergence of another figure with the personal popularity of Eisenhower, it is now possible that southern conservative Democrats and the hard core of non-Eisenhower Republicans will formally join forces. The alternative facing these two groups is isolation from the main bodies of their respective parties.

gamble in Mideast

The gamble of the British and French in the Middle East seems to have paid off to this extent: the Suez Canal, all but in the hands of Nasser, was retrieved for international control. But with or without Nasser on the scene, Arab nationalism in North Africa will continue to press the French, and British influence in the Middle East is now admittedly nonexistent except for whatever can be saved through United Nations intervention.

chestnuts in the fire

Several big questions loom at this writing. While Egypt was being so quickly neutralized by Israeli action and Anglo-French bombardment, where were the other Arab powers who for so long had been rattling the sword so ferociously? Was the shape of the domestic Egyptian revolution too much for the conservative and influential elements of the other Arab powers? Was the Iranian example of a few years ago too frightful to countenance the sabotage of oil fields? And if by design or by circumstance the Israeli action served to pull the Anglo-French chestnuts out of the Egyptian fire, will the Israelis have to stand alone when the time comes for a new settlement? Chances are that the United Nations will be busy for a long time trying to straighten out the tangled mess of claims and counter-claims in the Middle East. But what can the United Nations do about the Hungarian shambles? The answer there seems to be, "Nothing." And how far will Communist China go to continue the Titoist defections in the Communist world? If she goes far enough—as far as Poland—will this help her to get into the United Nations? ■

Do mergers kill COMPETITION?

by Ralph L. Nelson

Two past merger waves have shaped the pattern of competition today; the present merger movement is not changing that pattern

MERGER movements have been a spectacular, though infrequent, part of American economic life. Separated by periods of from 25 to 30 years, they have worked major reorganizations in many industries and have left in their wake a business community greatly changed from that existing before the onset of the merger wave. More important, they have shaped the pattern of competition and business growth for many years after each wave has passed. Today, as another wave of merger activity nears its peak, Congress is worrying about the force and effect of the new breaker and is grappling with legislative proposals to establish greater control over it.

Last year, 525 medium and large industrial companies disappeared by merger with other firms, the largest number of mergers in any single year since 1930, when 799 companies were absorbed by merger. Moreover, the recent trend has been toward a greater number of acquisitions by large companies. Fifty-eight per cent of the mergers from 1940-1947 involved an acquiring company having assets of 10 million dollars or more. From 1948-1954, the ten-million-dollar-or-more firms accounted for 66 per cent of all acquisitions, while in 1955 their share had increased to 70 per cent. Between 1953 and 1955, five companies entered the select circle of the 100 largest corporations via the merger route.

Yet the current revival of mer-

ger activity, while extensive, is not as large as earlier merger movements. At the turn of the century, in the three peak years of 1899 to 1901, at least 2,000 firms were swallowed up in mergers. From 1927 to 1929, mergers claimed 3,100 firms. By contrast, only 1,200 firms disappeared through merger from 1953 to 1955.

The effect of the three merger movements on the amount and form of competition has been varied. The turn-of-the-century merger wave consolidated thousands of small and medium-size companies into a relatively few very large ones. In many cases the merged firm controlled a dominating share of its industry. The goal of many mergers was to establish a monopolistic position, and in some instances this goal was realized. The effect was to bring about a major reduction in the amount of competition in industry.

The merger movement of the 1920s had a somewhat different effect on competition. The interpreters of the antitrust laws took a dim view of vigorous merger activity by the largest firm in the industry. But they did not discourage growth by merger of the second, third, and fourth-ranking firms, thereby accelerating the formation of industries in which the leadership was shared by three to six large firms. This pattern of joint leadership in an industry, now characteristic of many of our major industries, has been called oligopoly. While the existence of several big firms signifies more active competition in an industry, it is still an open question whether the oligopolistic industry is competitive enough.

The most recent merger revival has been more complex in its effect on competition. Unlike the first two merger waves, the goal of recent consolidations has not been the union of two or more firms producing the same product at the same stage of fabrication. This type of merger, frequently described as a horizontal merger, reduces the number of independent firms selling a given product. Horizontal mergers accounted for roughly two-fifths of the recent merger activity. They amounted to about three-fourths of turn-of-the-century merger activity and a high share of that of the 1920s.

The effect on competition of recent horizontal mergers therefore was probably much less than the horizontal mergers of 25 and 55 years ago. It is difficult to see how it could have been greater than the earlier merger waves which led to basic changes in the structure of industry and to the estab-

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Ralph L. Nelson has been collaborating with others on a study of business mergers in the U. S. for the National Bureau of Economic Research.

lishment of the pattern of concentration that has persisted through the first half of the 20th century. The recent mergers could only maintain or slightly increase this concentrated pattern, but not change it greatly. To change it would mean the creation of monopolies, or one-company control in many industries, and this was clearly illegal.

Vertical mergers

The strengthening of major oligopolies by merger has recently been discouraged by antitrust authorities. The Department of Justice prohibited the merger of Bethlehem Steel and Youngstown Sheet & Tube, which would have made Bethlehem Steel the second largest steel company, more nearly equal to U. S. Steel, the largest. Antitrust authorities, however, have not indicated how they will deal with oligopoly-forming mergers in minor industries. Nor is there a clear policy towards small-firm mergers which may represent the initial step toward control of an industry.

Approximately one-fifth of the recent merger activity has involved the merger of firms producing the same product, but at different stages in the production process. This type of merger creates firms in which the successive stages of production are integrated under one central control, and this is called a vertical merger.

The merger of the Mathieson Chemicals Corporation and Olin Industries into one 500-million-dollar business, the Olin-Mathieson Chemicals Corporation, is an example of this type of activity. It was accomplished to exploit the common interest of both companies in petroleum chemicals and jet fuels, and to provide sources of raw materials for Olin's operation in the cellulose and packaging fields. It was believed that economies would be achieved through integration and in research.

The effect of vertical mergers on competition is not likely to be great, provided no one firm gains a stranglehold on any given stage of production. One of the reasons why the Aluminum Company of America was long able to dominate the aluminum fabricating industry was its control of bauxite ore sources and the production of the basic metal. However, where there are a number of firms at each stage of production, vertical integration may mean no diminution of competition. It seems unlikely that recent vertical mergers caused any important reduction in competition. It should be noted, moreover, that vertical mergers played no greater part in the recent merger movement than they did in the first two merger waves.

What most clearly distinguishes the current merger movement

from its predecessors is the important role played by mergers that are neither horizontal nor vertical. This third type of merger may represent the union of two firms producing products bearing a logical relation to one another by virtue of similar production techniques or similar marketing conditions. It may also involve the joining of two firms producing essentially different products. The effect of this type of merger is to diversify the product-mix of the firm either by introducing entirely new products or by lengthening the line of products offered by the firm.

Diversification the goal

Examples of this type of merger can be found in the joining together of the Carrier Corporation, which produces air conditioning units, and Affiliated Gas Equipment Corporation, producing heating equipment; in the combining of the Sperry Corporation, producers of precision scientific instruments, and Remington Rand, Inc., manufacturers of office equipment and electronic brains; and in the uniting of the Royal Typewriter Company with the McBee Company, producers of accounting and statistical machines and supplies.

About two-fifths of recent mergers have had diversification as their goal. By comparison the first merger movement had virtually no diversification mergers. The movement of the late 1920s had a substantial number. On the whole, however, the effect on competition of a merger achieving product diversification is not likely to be great. If the merged products did not directly compete with one another before the merger, there was no competition in the traditional sense to begin with. On the other hand, diversification may have other effects on the strength and growth potential of the firm, and thus have an indirect effect on its ability to compete.

A popular explanation of many recent mergers-for-diversification is the greater stability possible in the enlarged business. The firm initiating the merger presumably experienced some sharp ups and downs in its sales, and therefore attempts to stabilize operations by acquiring another company whose product has a more constant record of sales. This motive has been apparent in many textile and chemical mergers, in which rapid product obsolescence has cut the ground from under single-product firms. Through product diversification a hedge may be placed against destruction of the market for one of the firm's products. This would absorb the losses suffered by the obsolete product.

A merger for diversification is often an expensive proposition.

When an unstable firm seeks to acquire a stable firm with a promising product, the stable firm may be willing to sell out only at a substantial premium. After all, the stable firm, by merging, is increasing its own risk of instability, and this risk requires its proper premium. It might be more profitable for the unstable company to put its funds into additional research and product innovation. The stability thus achieved may be more enduring than one achieved by merger.

Another reason for mergers may be found in the desire of business to achieve stability against the ravages of depression. Many organizations are on the lookout for companies whose sales are "depression-proof." Such companies are in a small minority in the business population, for most businesses cannot be insulated against depressions; if they could, of course, there would be no depressions. We might, therefore, expect that the premium on depression-proof companies would be high, which leads us again to the belief that stability might be better achieved by perfecting one's own business. The record of many prominent mergers of the past has indicated a poorer-than-average performance in the business depressions that have followed major merger waves.

Mark of prosperity

Mergers are a mark of prosperity. This is the conclusion I have reached after studying merger activity and the business cycle. The study revealed that large merger revivals occurred during times of full employment and rising securities prices. At such times, the optimism of investors is likely to be excessive, with future prospects viewed too often through rose-colored glasses. Mergers, like other forms of business investment, enjoy a popularity not warranted by more realistic economic thinking.

Unlike its predecessors, the current merger revival has not seriously reduced the number of firms producing products in direct competition with one another. The current movement, however, has developed in a different way and given rise to groups of firms producing unrelated or partially related products. Only time will tell whether these combinations have been wise in conception and effective in execution. ■

First Five Years Are the Hardest

INADEQUATE SALES and inexperience are the major reasons for business failures, a Dun & Bradstreet survey indicates. Three-fifths of the failures this autumn were businesses in the first five years of their operation, while one-fifth were started in 1955.

Increased public welfare programs and philanthropic foundations have set private fund-raising agencies on a new path

the big change in GIVING

THE APPEALS of the season are upon us again. Daily we'll find our mailboxes stuffed with envelopes containing booklets, stamps and stickers. Our newspapers will appear to consist of full-page advertisements for *this* charity or *that* welfare organization. The streets will be crowded with energetic fund collectors.

It will be give, give and give: to prevent disease, stamp out delinquency, help the poor, succor the sick, relieve the needy and feed the hungry.

Why this overwhelming campaign to capture the sympathies—and the purse strings—of the healthy and relatively well-off? And, if the campaigns tell the truth about sickness and poverty, why doesn't the government offer its assistance to the sick and the poor?

These questions are asked every time the appeals for contributions reach fever pitch, as they do around Christmas-time when the belief in the "botherhood of man" is supposed to be stronger than at any other time. Apparently, private welfare organizations, beset with the hard work of raising the funds necessary to keep their activities alive, haven't the time to answer, because the questions persist. And so does the problem.

Each year private welfare organizations collect about one billion dollars in voluntary contributions from the American people. But this is not all the money being spent to alleviate the social, medical and economic ills among the people of the country. Federal and state governments contribute well over 15 billion dollars a year more.

In other words, what for one hundred years was the primary

business of private welfare, the relief of the poor, the unemployed and the sick, was taken over by the government during the depression years when those problems became too big for existing private agencies to handle. Social workers who manned private agencies during the depression were among the first to clamor for state and federal government funds for emergency relief.

The stop-gap measures have since grown into a complex body of laws which today establish a minimal base of welfare as a matter of public policy. This basic welfare program is not likely to be abandoned and is being expanded as Social Security, unemployment insurance, minimum wage and other laws are continually broadened by amendments.

Greater responsibility

These laws, union demands, a growing social awareness and greater prosperity have led industry to assume greater responsibility as well. It now contributes directly to other security programs: pensions, insurance and medical and health services.

In addition, there is no area of social betterment which has not benefited from the contributions of more than one thousand foundations that have been established in the last 25 years. Millions of dollars have been made available by foundations which were specifically created to utilize the wealth of such families as the Rockefellers, the Fords, the Carnegies and others in religious, charitable, scientific and educational channels.

With the entrance of government, industry and philanthropic foundations on the welfare scene, major responsibility for the nation's minimum welfare needs passed from the hands of private welfare organizations. This was a revolutionary change.

The government, state and federal, have taken on the major job of direct relief to the blind, the aged, the chronically ill, the hopelessly indigent and those who suffer economic loss in time of economic strain. Business and philanthropic groups have assumed the tasks of meeting health and educational needs.

Private agencies, in the main are directing their efforts to the field of preventive welfare—deterring social problems from reaching distressing proportions. They are filling the gaps in the government, industrial and philanthropic programs by offering counsel and economic assistance to the individual and family struck by disaster. They also single out special areas that require public attention and cor-

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This article was prepared by a CHALLENGE staff member who has had fund-raising experience.

rective action. Private groups, for example, have aroused concern about the problems of the aged and have organized community groups to promote specific social and medical assistance for our older citizens.

Progress being made

A private agency took the initiative in launching a nationwide battle against polio and poured the money collected in its drives into research. The Salk anti-polio vaccine resulted, and in one year its use brought a reduction in polio cases. Similar campaigns by other private groups have also registered progress in the treatment and cure of heart disease, cancer, muscular dystrophy, tuberculosis and mental health.

In these campaigns, millions of individual Americans contributed generously to finance the costs of treatment for victims of these dread diseases and the expense of research projects to find a cure for them. The willingness of most Americans to support such private welfare drives not only reflects their increased financial abilities, but their continued belief in the "brotherhood of man." More than that, however, it reveals a growing awareness of the need to support measures aimed at eliminating *sources* of distress.

High-pressure campaigns conducted by private fund-raising agencies contributed to this awareness. Such campaigns center their appeals around one incontrovertible truth: that prevention is cheaper than cure.

Most people recognize the costs involved in the production of goods, the raising of food on the farms, the digging of minerals, the transporting of freight and all the necessary activities that make up a flourishing and expanding economy. Many people, however, do not recognize the costs that must go into the making of a healthy, happy and useful citizenry.

An expensive proposition

An adequate program to prevent distress—to eliminate the social and economic roots of distress—is an expensive proposition. Private fund-collecting organizations have been meeting such expense with the aid of those willing to shoulder some of the costs voluntarily.

As long as federal and state governments, as well as industry and the philanthropic foundations, are unable, on their own, to undertake the significant work now being accomplished by private welfare organizations, the activities of these organizations deserve support. Self-help is the most constructive type of social assistance that a democratic society can provide. ■

John A. Hall

Director, Division of International Affairs, United States Atomic Energy Commission

How International Is The Peacetime Atom?

Q *Mr. Hall, the recent agreement by 82 governments in the United Nations to set up an international atomic energy agency heralds a new phase in the atomic era. Was this agreement in line with our own long-range intentions in regard to atomic energy?*

A It certainly was. Of course, the agreement pertained only to the peacetime uses of the atom. It is a partial fulfillment, at least, of the hope of all thinking people that something can be done to control the atom, peaceful or otherwise. Of course, the United Nations tried for many years to develop an acceptable international control scheme which would provide a basis of security for the world. Such efforts failed principally because the Soviet Union could not be convinced that its own security rested on this type of international control.

Q *What is the background to the 82-nation agreement?*

A The first significant step was taken in 1953, when President Eisenhower, before the General Assembly of the United Nations, proposed a new effort in the field of atomic energy. He expressed the desire of the U. S. government to cooperate with the other nations of the world in developing the peaceful side of atomic energy.

Q *Was this the first time that a nation possessing atomic knowledge and equipment suggested international exchange of information?*

A No. A part of the original Baruch proposal of June 1946 provided for international collaboration and cooperation in developing the peaceful side of the atom. In many respects, the Presidential proposal in 1953 and the new Atomic Energy Act of 1954 were logical extensions of the Baruch proposals.

Q *What did the Atomic Energy Act of 1954 do?*

A It made cooperation with friendly states abroad a part of legislative policy. It gave a mandate to the Atomic Energy Commission to cooperate in this field with our friends and allies. It authorized the exchange of both classified and unclassified information on the civilian uses of atomic energy.

Q *How do we distinguish the peaceful side of atomic energy from the military side?*

A Fortunately, that problem has become much easier in recent years. Information that has been developed on the civilian side has begun to be declassified and has become a part of the public domain. On the basis of declassification alone, it is fairly simple to distinguish between the military and the peaceful sides.

Q *Exactly what was the new cooperation supposed to entail?*

A The 1954 statute made possible the transfer of fissionable material to be used for civilian purposes abroad. The earlier 1946 statute categorically prohibited such a transfer.

Q *How does a friendly power go about getting fissionable material?*

A The Atomic Energy Act of 1954 requires that the Atomic Energy Commission negotiate bilateral agreements. After such an agreement has been approved by the Commission, it must be approved by the President and placed before the Joint Congressional Committee on Atomic Energy for 30 days. All this having been done, the legal authority for the transfer of fissionable material is then established. Therefore, before any nation decides to have a reactor constructed for its use, it must first find out whether a bilateral agreement can be reached so that the United States can make the necessary transfer of material.

Q *How many bilateral agreements are in effect?*

A At the present time 39 bilateral agreements are in effect. These agreements have provided a basis for international cooperation in the atomic energy field.

Q *How will the transferred fissionable material be used?*

A Either for research purposes or, in the case of a few of the countries, for power reactors. But for many of our friends abroad the first step is not to get a power reactor but to receive the type of assistance we can give in the basic treatment of the subject. This can be handled under a research bilateral agreement.

Look to the U. S. for information and assistance

Q *Are most of the 39 bilateral agreements with so-called underdeveloped countries?*

A Many of them are, yes. There are agreements with highly developed countries also, some of whom have a fairly high understanding of the art. They still look to the United States for further information and assistance.

Q *Does assistance also include training of individual scientists?*

A Yes. We recognize that something more is needed than the transfer of documents and libraries, although that is essential. Many of our friends abroad do not, for example, have courses in their universities on nuclear engineering or perhaps advanced chemistry and physics. One of the first steps we took was to establish an international reactor school at the Argonne National Laboratory just outside of Chicago.

Q *Are the students in attendance at this school mostly from any one particular part of the world?*

A I think it is important to stress that we are not talking only about students from countries that are often characterized as underdeveloped. There are more requests for admission than can be filled from our more sophisticated friends in Western Europe. There is a great lack of training, and of the facilities for training in all other countries, which explains why the course is so well attended.

Q *Are other nations developing similar activities?*

A If they are, I am not aware of it. The Soviet Union, for example, has held several symposiums in Moscow. But these are not courses as such. The Argonne School conducts a course that runs for nine months, comparable to the normal academic year. It is true, however, that in several American universities courses are being given in reactor engi-

neering, but I am not aware that the type of international approach we are talking about, providing a basis for reactor training, exists in other places in the world.

Q *How many nations are represented in the Argonne National Laboratory school?*

A At the present time there are more than 27 nations participating in the training program. This school represents not only an interesting technological and scientific instance of cooperation, but it is an interesting sociological experiment as well. You find students there, and most of them are advanced students, who come from different countries but who now work in teams. The school is an outstanding example of how it is possible with a minimum of language difficulties to cooperate in a technical field like atomic energy.

Q *What courses are given at this school?*

A The school provides the first insight into the problems of a research reactor. The school has a reactor. The experiments performed by the students are all related to making certain that the young men understand and are able to operate a research reactor when their country eventually decides to have one constructed.

Export-Import Bank to finance reactor projects

Q *How about the reactors? Does the United States provide any help in the building of reactors?*

A We recognize that many of our friends find it difficult to finance research projects in atomic energy. The President, in June 1955, advised the world that we would be prepared to finance research reactor projects up to 350,000 dollars per project. In February 1956, the President and the chairman of the Atomic Energy Commission jointly announced that the United States would make available 20,000 kilograms of uranium 235, the basic fissionable material, for use in research reactors and power reactors abroad. And recently the Export-Import Bank announced that it would make long-term loans to finance such reactor projects.

Q *Do we have any agreements which provide for regional development of reactors? South America is understood to be considering such an approach to financing reactor research.*

A No one has, as yet, asked us to develop a regional arrangement. The so-called Euratom idea, as well as the growing interest of the Organization for European Economic Cooperation, may eventually provide the basis for a regional effort in Western Europe. The same thing may happen among the so-called Colombo Plan nations, namely Pakistan, India, Ceylon, Indonesia, Burma, Australia, New Zealand, Japan, Canada and the United States. The United States has announced that it is prepared to support such a regional center, now known as the Asian Nuclear Center.

Q *To what extent has our interest in providing a certain degree of security for ourselves impeded atomic energy development abroad?*

A All scientists recognize that the same machine producing heat or neutrons for research also produces quantities of a material known as plutonium. Plutonium, with not too much difficulty, can be used in an atomic weapon. It has been the objective of this government, in pursuing a policy of the peaceful development of atomic energy abroad, to make certain that we, by our actions, do not provide any country with an opportunity to divert this material to weapons. But I don't think this has caused any impediment to the development of atomic energy abroad.

Q *What has the government done to assure the use of plutonium for peaceful purposes only?*

A In our bilateral agreements we developed certain principles which recognized a joint responsibility in this field. Among these principles are some which allow representatives of this government to have access to the work being done abroad in order to make sure that the material is not being diverted to military purposes.

Atomic energy as source of heat and power

Q *What are some of the long-range possibilities you foresee in the development of atomic energy throughout the world?*

A One great difficulty in the field is that advances are made so rapidly that predictions made two days ago may not be valid today. But I think it is safe to say that in those countries which do not have our natural advantage of large resources of fossil fuels, the use of atomic energy as a source of heat—and therefore power—will be extremely

important. The period of time when this source can be fitted into the economy of one's country differs considerably. I think that many countries in the next ten years not only will rely on atomic power but will be making plans, let us say for the next 20 or 30 years, to use atomic energy as a primary source of heat and power.

Q *What new developments in United States foreign policy can be expected in this field?*

A This really is beyond my competence. But speaking as an American citizen and having traveled in probably 20 or 30 countries in the past year and a half, it has been gratifying to know that the President's Atoms for Peace program has made a significant imp ession on not only our friends but some of those nations who doubt our intentions. I feel that if the United States maintains leadership in this field, it could build a foundation for further constructive leadership in other fields.

Q *Do you think cooperation in the development of the peacetime atom will encourage other forms of international cooperation?*

A It may well be. The fact that atomic energy can provide the basis for further understanding between states is amply demonstrated by the 82-nation Atoms for Peace conference recently held in the United Nations in New York. The Geneva Conference in 1955, another overwhelming success, also demonstrated that nations not only have the desire to acquire more understanding of the atom but also seek to speed the development of peaceful uses of the atom.

Q *What has resulted from these conferences?*

A The 82 nations, as you noted earlier, voted unanimously to establish an International Atomic Energy Agency. It will act as a kind of banker and broker, providing fissionable materials and technical skills to all nations interested in nuclear development. The United States will give the agency 11,000 pounds of uranium 235 to assist it in setting up atomic research and power plants for peaceful purposes only. The agency may inspect the results, establish standards of health and safety and take steps to prevent diversion of the nuclear material to war-making ends. All in all, a new high standard of international cooperation was reached in this historic conference.

Q *Thank you Mr. Hall.* ■

Everyday Economics

IF YOUR surplus cash is in stocks, remember that the best way to keep dividend taxes down is by use of dividend exclusions. If you buy securities in just your name, you get a dividend exclusion of $50. If the same stock is in your wife's name *and* yours, you get a total exclusion of $100. Additional exclusions of $50 each are allowed to each member of your family owning stock.

Unconventional deductions

THE TREASURY announced that it intends to crack down on tax returns claiming deductions for expenses at business conventions. It's wise to keep a record of all expenditures, receipts if possible.

Particularly suspect will be conventions held in resort areas or vacation cities, or conventions where your wife accompanied you and you deducted her expenses. You will have to prove that the convention was essential to your business. But even then it is doubtful that all expenses will be deductible; at least part of the total costs will be of a personal nature. So, keep your business and social records separate.

Sick leave tax break

UNTIL recently, if you were off the job because of illness or accident, up to $100 a week was exempt from federal income tax. The Internal Revenue Service has now broadened the tax break. Your employer, if he chooses, can show your sick leave payments not as income at all but as a separate item on the withholding statement, thus exempting you from paying tax on that item.

Ready for winter?

A STRONG battery in your car is essential during winter months, so make sure yours is fully charged.

Terminal connections should be clean and tight for full power. If you find corrosive paste atop the battery case, cover the air holes with adhesive tape and wash the paste off with clear water and baking soda. Also be sure that the horn not only toots, but toots loud enough, and the windshield wipers will satisfy you on even the rainiest of days.

Taxing the loss

IF YOU fail to keep records of the cost of home improvements, you may end up paying a capital gains tax even if you sell your house at a loss. For example, if you sell a $20,000 house on which you spent $5,000 in home improvements for $24,000, your loss is $1,000. But if you have no records of the money paid for improvements, the Treasury may claim you have a taxable profit of $4,000.

Khaki confusion

QUESTIONS still crop up concerning military obligations of youths who are drafted. Young men drafted since the new law went into effect must join an active Reserve unit after their two years' regular service is over. This means weekly Reserve drills and summer camps for four years. Youths drafted under the old law have a longer Reserve obligation, six years, but they aren't compelled to attend drills.

T-day is coming

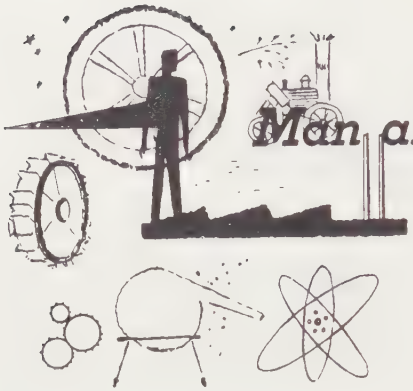
DECEMBER 17 is the day corporations must pay the second installment (10 per cent) of the estimated 1956 income tax. On the same day employers must deposit income and Social Security taxes withheld in November, if the amount exceeds $100.

Christmas charity

THE Community Chest offers this Christmas - giving advice: Don't prepare baskets for the poor. The best bet is to give to your local Christmas Bureau or special committee on Christmas giving. These unite the social-service groups and assure wise distribution.

AMA checklist

EXECUTIVES planning to take a course in management development or related subjects can get a comprehensive checklist of courses offered by leading universities and associations. It's the American Management Association's *Guide to Short Term Courses and Seminars for Management,* available free from the organization. ■



Man and the Economy

No. XIX

Experience has taught us that it cannot be justified in terms of economic self-interest

THE TWENTIETH century, most economists and historians agree, really began in 1914 and not when the calendars say it did. Since that date, two generations have lived in the aftermath of or prelude to total war. Indeed, the problems that have occupied economists during the last 42 years—inflation, depression and economic instability—have their origins in the terrible dislocations caused by two world wars and the (frequently equally terrible) means devised to cope with these dislocations.

Considering the important role which total war has played in shaping the kind of world we live in today, it is remarkable that so little has been written by economists on war itself. Economists, prior to 1914, liked to think of human beings as rational, and, having demonstrated that war does not pay, concluded that there could be no total war. They said war deprives nations of their natural markets for goods and capital, imposes unbearable tax burdens upon populations without corresponding increases in real wealth, depreciates the currency and encourages inflation and leaves a country physically devastated, underpopulated and demoralized. Surely, these liberal economists argued, no nation could be so foolish as to engage in a war from which it was certain it could not emerge victorious.

Four years before World War I, a leading British economist, Sir Norman Angell, enjoyed best-seller fame with a book, *The Great Illusion,* in which he argued with good logic but bad psychology that "political or military power is economically futile. The assumption," he wrote, " that military force if great enough can be used

to transfer wealth, trade, property, from the vanquished to the victor . . . is a misconception . . . so profoundly mischievous as to misdirect an immense part of the energies of mankind . . . to such a degree that, unless we liberate ourselves from it, civilization itself will be threatened."

Like most nineteenth-century economists, Angell placed great emphasis upon economic factors in history and, while his dire conjectures about the consequences of total war in the twentieth century have been only too dreadfully realized, this has not prevented us from fighting wars since then. War, as we shall see, is a phenomenon that cannot be explained in terms of economic self-interest.

During the second half of the nineteenth century there was a good deal of speculation about the causes of war and, in keeping with the materialist temper of the time, much of this discussion was in terms of economics. While it is true that the majority of economists in the Western world (the United States, England and France) simply refused to believe that global war was possible among industrially developed nations, there were others, especially in Germany and among Marxists, who felt sure that, for better or worse, war at some future date would be unavoidable.

The Marxist, or perhaps more accurately the Leninist explanation of war, is perhaps the best known. But long before Lenin, it had been thought (and not only by Marxists) that war benefited the propertied classes. During the early twentieth century, for example, there was a popular belief that wars were the result of diabolical plottings by munitions makers anxious to stay in business. There was no explanation, however, of why munitions makers possessed such great influence.

An original, but at the time unknown, English economist, John A. Hobson, presented what is perhaps the best statement of the "imperialist" theory of war. War, said Hobson, who was no socialist but a professional economist with an interest in social reform, is the result of economic antagonisms among different business interests —investors, contractors, export manufacturers, etc. "These cliques, usurping the authority and voice of the people, use the public resources to push their private interests, and spend the blood-earned money of the people in this vast and disastrous military game, feigning national interests which have no basis in reality." Hobson envisaged an "imperialist" war fought between two or more colonial powers in some far distant

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This is the nineteenth article of a series in CHALLENGE dealing with the economic development of man.

place, not the global massacres we have since become accustomed to.

While economists generally regard Hobson as the best expositor of the imperialist theory of war, it is Lenin's version of that particular theory which is best known. Written during World War I, his book, *Imperialism,* carries Hobson's imperialist theory much further. According to Lenin, as free competition inevitably gives way to the concentration of capital in fewer and fewer hands, monopoly becomes an established feature of capitalist society.

Colonial monopoly

Lenin felt that the more industrially advanced countries like England, Germany and the United States had already arrived at the monopoly stage prior to World War I. Under such circumstances, Lenin held, the export of capital assumes increasing significance. "The capitalists divide the world," wrote Lenin, with a fine show of objectivity," not out of any particular malice but because the degree of concentration which has been reached forces them to adopt this method in order to get profits." But this division of spheres of influence can never be permanent, for, in his own words, "When the world had been divided up, there was inevitably ushered in a period of colonial monopoly and, consequently, a period of particularly intense struggle for the division and redivision of the world." War would be the only way of achieving such redivisions.

Our experience in two world wars has not dealt too kindly with the imperialist theory of war. The major capitalist belligerents were supposedly fighting each other for a share in the world's investment and commodity markets. Yet they were forced to cede millions of square miles of these colonial markets to peoples who never participated in their wars. Certainly, it is not the imperialist nations who have profited from war. In most capitalist countries, moreover, the domestic requirements of national economies have been more than adequate to absorb most of the available investment capital. Indeed, the problem has been finding investment capital, not disposing of it.

Luring capital overseas has been a problem which has occupied the attention of United Nations economists and governments in underdeveloped areas during the entire postwar era.

Another popular conception of war, especially during the interwar period, is what we might call the nationalist theory of war. This approach to war, while by no means peculiar to Germany, was perhaps best expressed by German economists and was, in fact,

given its most complete workout in Hitler's Germany. As a latecomer among European nations, Germany had to catch up quickly with her industrially more advanced neighbors. And the only way to accomplish this, according to her economic advisors, was to secure her domestic markets against foreign competition and develop a self-sufficient economy at home. In order to be self-sufficient, however, a nation must have access to a wide variety of resources—more than were to be found in even such a wealthy country as Germany. And that, according to an influential body of German economists, means that a nation must have a strong military force ready at all times to protect *and* extend the power of the state.

Productive institution

Adolf Wagner, the leading German spokesman for this point of view prior to World War I (the Nazis celebrated, with great fanfare, the centennial of his birth in 1935), described the German army as "a truly productive institution. The essential characteristic of the state," he observed, "is military power, the first and foremost of all national, and I may add, of all economic necessities."

Wagner and most pre-World War I economists thought of military power primarily as a way of protecting or acquiring property. During the depression of the Thirties economic apologists for military power offered a more sophisticated justification for mobilization. They said preparation for war (and even war itself) stimulates economic activity by employing the unused labor and capital resources of the nation. Hitler's solution of the German unemployment problem through an intensive rearmament program is the best illustration of this attitude in practice. Cynics have even gone so far as to suggest that the only way to achieve full employment is to keep one half of the population busy producing the weapons with which the other half can get itself killed. But cynics, as we shall see, do not always make the best economists.

If there is anything that our experience during two global wars and one costly "police action" has demonstrated, it is that war is no longer (if indeed it ever was) an effective means for attaining the economic objectives of any nation. For, in the final analysis, no segment of the economy profits from war. In the short run, it is true, a sharp businessman might obtain a quick advantage from the existence of widespread scarcities. It is also true that during a war labor is generally in short supply and wages are high. But the businessman who profits from general

wartime shortages and the worker who benefits from labor shortages often see these benefits disappear once the war is over and the post-war inflation is on. The mass of the population, moreover, (business, labor, farm, etc.) does not benefit from war even in the short run. Income may be higher but not high enough to purchase unavailable goods. Business profits may look good on paper, but government taxes take a terrific cut. Government revenues may be rising but not as fast as the need to increase economically useless military expenditures.

The balance sheet

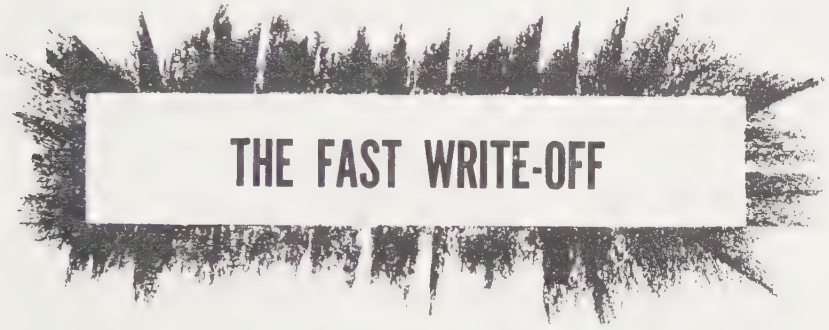
Not only does no "special interest" benefit from war, but the political and military power of the nation which engages in war is generally adversely affected. No European power came out of World War I or World War II stronger than it went in. This is as true of the victors as of the vanquished. England, for example, was victorious in two world wars but found that, in order to finance these victories, she had to liquidate most of her investments overseas. Ever since World War I, England, once the creditor of the world, has been a debtor nation.

Indeed, only the United States and the Soviet Union came out of the war more powerful. Even here, it would be a mistake to attribute this increase in power to the war itself. The Soviet Union suffered terrible physical devastation and did not begin to surpass prewar levels of over-all production until 1948. The United States, though it did not suffer any physical destruction (something it could not count on in a future war), did lose some of her best manhood. The war also saddled us with a 210.7-billion-dollar addition to the national debt, an increase of more than 400 per cent.

Wars, it would therefore seem, are not fought to secure the economic interests of a particular group as Hobson and the Marxists believed; neither have they been fought to enhance the economic wealth of nations. War simply cannot be justified on the basis of economic self-interest. The roots of it lie deeper, perhaps in the personalities of individual men and women. We do not yet know. ■

NEXT MONTH: The inflation of the Twenties and how it was to revolutionize subsequent economic thought

Accelerated tax amortization is a big issue in Washington today. This is the story behind the inner-circle struggle over



by William H. Chartener

ANY DAY NOW the issue of fast tax write-offs to business—a long-simmering political and economic problem in Washington—will reach the boiling point as Congress and the administration take another look at the program.

The issue became hot six years ago, during the Korean war, when Congress authorized the use of fast depreciation allowances to encourage business to build new defense facilities. Congress took the provision of the 1909 tax law which permitted companies to deduct a "reasonable allowance" from their taxable income for wear, tear and obsolescence of machinery and buildings, and cut the time in which such allowances could be made. Instead of as much as 20 or 25 years, it authorized write-offs in five years. In 1954, Congress extended fast write-offs—but at a slower rate—to *any* new machinery and buildings.

Labor, small business and some Congressmen, Senators and federal administrators have attacked the program because, they say, it is a tax "giveaway" and shows government favoritism towards big business. The opposition has now spread to include top administration officials and powerful and influential senators. One of them, Senator Harry F. Byrd, says fast write-offs increase the danger of creating unfair competition, industrial overexpansion and damage to small business, and results in a loss of tax revenue.

This opposition, however, is concerned mostly with accelerated amortization as it affects defense industries. Currently, the tax law offers three other methods of de-

preciation to businesmen, none of them as attractive as the five-year write-offs, but none requiring special authorizations like the fast write-off.

Straight-line method

The first is the *straight-line* method, generally used prior to 1954. This method spreads the cost of a new machine or building equally over the years of its economically useful life. Based on a table of normal rates of depreciation, a company is permitted, for example, to deduct one hundred dollars in depreciation every year for ten years on a machine that costs one thousand dollars and has a life expectancy of ten years.

The 1954 tax law added two methods: the *double declining balance* and the *sum-of-the-year's digits.* The former permits a taxpayer to deduct double the *percentage* allowance permitted under the straight-line method. The first year's deduction, for example, would be 20 per cent of one thousand dollars, or 200 dollars. The second year's would be 20 per cent of the remaining 800 dollars; the third would be 20 per cent of the remaining 640 dollars and so on.

The sum-of-the-year's-digits method is a mathematical novelty. In our example of a one-thousand-dollar machine with its useful life of ten years, the digits one through ten are added, giving 55. The first year's depreciation deduction would be 10/55 of the machine's cost, or $181.81; the second year's would be 9/55, or $163.63, and so on, to 1/55 in the tenth year. The sum of these allowances will always amount to exactly the cost of the machine.

Every one of these depreciation methods allows the taxpayer to make total tax deductions equal to the original cost of the equipment or building, and no more. But the double-declining-balance method allows two-thirds to be deducted in the first half of the calculated life; the sum-of-the-year's-digits method, nearly three-fourths. The fast write-offs method, however, allows the *total* certified amount to be written off in five years.

Since the Korean war began, the Office of Defense Mobilization has granted more than 20,000 fast write-off permits on new and expanded defense facilities worth close to 37 billion dollars. Of this amount, 61 per cent, or 22 billion dollars can be written off at the quickened five-year pace.

Fast write-offs provide these advantages:

• Payment of taxes is postponed. The higher the depreciation deduction in any one year, the

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William H. Chartener is with the department of economics of the McGraw-Hill Publishing Company.

lower the taxable income, and hence, the lower the tax bill. More important, however, the postponement of taxes in effect grants an interest-free five-year loan from the U. S. Treasury.

• Reductions in the total tax bill over the years are possible if corporate income taxes are lowered, or if the firm drops into a lower tax bracket either by showing a lower profit or by operating at a deficit. And, if there is much inflation, the tax saving in later years would be sizable, because tax payments would be made with "cheaper" money.

• The amount of money a company can keep out of its current earnings is increased. Depreciation is counted as an expense on the books of a company. The money is retained and is used to pay back the loan negotiated to finance expansion, or to finance new expansion. Loans are easier to come by if expansion is undertaken under a fast write-off certificate, because early repayment of the loan is assured.

• More money is also retained in the corporation when less money is paid out to stockholders through dividends. A higher depreciation deduction means a lower reported profit. Dividends are determined by the amount of profit. A lower reported profit also enables a company to make judicious price increases. To the public, this does not look like profiteering because profit figures are lower than earlier figures.

The advantages more than outweigh these two main disadvantages:

• There is a greatly increased tax burden at the end of the five-year period, when there is no more or very little depreciation to deduct from taxable income. At the same time, the plant expansion may have increased production, and, therefore, income on which to pay taxes.

• If there is a significant amount of deflation, the company will have to make the higher tax payments of the later years with "dearer" dollars.

Steel industry anxiety

The steel companies claim they are now about to suffer the first drawback as their fast write-off permits run out, and this accounts for their anxiety over fast write-offs. Last year, United States Steel, for example, charged off 147.5 million dollars under its old accelerated amortization certificates. Had it charged off straight-line depreciation, which amounted to 30 million dollars, it would have had 80 million dollars less in cash. Federal income taxes would have taken 59 million dollars and 20.7 million dollars would have been taken out for dividends or other uses.

The cash loss to the industry will be great enough to raise new difficulties in the ten-billion-dollar expansion program steel companies have scheduled for the next five years. Their request for permits to write off 1.5 billion dollars worth of this equipment and building is the first step of the expansion program. The Office of Defense Mobilization, however, is reluctant to issue the permits. ODM cut down its authorizations in 1953 after it felt that the country's defense needs were more than met by a three-year expansion.

ODM's reluctance is shared by Secretary of the Treasury George Humphrey who maintains that "the accelerated tax write-off is an artificial stimulus of a dangerous type. Its indefinite continuance involves the real danger that interests receiving the benefits of it come to rely upon it to the detriment of others who are not so favored. . . . Expansion of our defense facilities should be an integral part of broad, orderly, long-range, natural economic growth."

Treasury Department officials have another objection: tax collections have been cut an estimated 800 million dollars in each of the last two fiscal years. While taxes should pick up after 1960, the temporary decrease in revenues may be just enough to prevent balancing the budget or to thwart a general tax reduction.

The appeal of fast write-offs is strongest when profits are high and earnings are good. But while they are a strong incentive to capital investment, they are of doubtful value in assisting the economy's sustained and balanced growth. Except in special, critical areas of defense they seem to have outlived their usefulness.

The two new accelerated depreciation methods in the 1954 tax law, on the other hand, promise to contribute substantially to general economic growth. Every facet of industry and business— not merely defense facilities—is equally able to speed up depreciation and obsolescence deductions.

The view that inducements for investment in new machinery and buildings should be made available to *all* industry, not merely defense, is gaining greater adherence in Congress and among federal officials. The steel industry, however, may succeed in pushing a compromise involving a five-year write-off for part of the 1.5 billion dollars worth of expansion, enough to get that industry's building program off the ground. A further liberalization of the 1954 depreciation methods to cover used as well as new plants and machinery is another possibility. But that will only come after the boiling issues of the fast tax write-off are thoroughly cooled down by Congressional reviewers. ■

The new disability law seeks to compensate for the hazards of living rather than sustain the man who gets hurt on the job

Something New in Social Security

SINCE ITS inception two decades ago, there has been a continuous revolution in our Social Security program, not only in the extent of coverage and in the size of benefits, but also in the nature of the benefits. Until this year, these fundamental changes have been generally liberal and sound; the system had been altered only to beam the benefits to the neediest and to keep dubious claims to a minimum.

But, as a result of an amendment to our Social Security program adopted during the last session of Congress, the federal government is now embarked upon a disability income payment plan which, half a century of experience with state workman's compensation laws indicates, will do little to mitigate and can actually aggravate the tragic problems of serious and prolonged disability.

To qualify for disability payments under this new plan, a person must earn at least 50 dollars every three months for five years. This definition of eligibility entitles approximately 110 million people in the country to partial credit and 69 million people to full credit. Yet, the current labor force is only 67 million.

This new form of Social Security is said to provide financial security to those who are unable to work because of some severe disability—a goal with which no humane person could seriously quarrel. But it is questionable whether the law is designed to achieve this goal.

For one thing, the federal law completely ignores the experience gained with 48 state workman's compensation programs. One of the big problems in administering state compensation programs has been to rehabilitate and adequately compensate the relatively few who suffer severe injuries, especially the totally and permanently disabled. In most states an employed individual who suffers a serious accident or develops a disease which is related to his

work is paid a fixed income and is provided with free medical care. All too often, however, the weekly dollar benefit paid to the critically injured worker with a family of dependents is quite inadequate. In New York State, for example, a worker who is totally and permanently disabled can receive approximately 36 dollars a week. At the same time, the record shows that he may be provided with medical services costing as much as one hundred thousand dollars in a single year. The rehabilitation rate throughout the system, however, is dismal in comparison with that achieved by privately controlled services.

The result of abuses

But this inadequacy in alleviating genuine distress cannot be attributed to penny pinching. Rather it is the result of excessive and persistent abuses.

In New York State, where in a given year more than 300 million dollars will be spent, about 100 thousand workers receive some kind of weekly income for various periods of time. Yet, only about 300 cases of total and permanent disability involve unquestioned and tragic loss. More than 30 thousand cases involve backaches and thousands of others, while not inconsequential, are nonetheless minor disabilities such as facial scars, etc. The big problem, therefore, is not to increase the number of money payments, but to provide enough for those who really need the community's help.

This is precisely what the federal law does *not* do. Not only will it duplicate our state programs with less efficiency, but it will move us even further from the basic goal of all compensation legislation: providing compensation for work income lost because of an inability to work and providing medical treatment for cases where the incapacity is the direct result of on-the-job injuries.

The new federal law specifically excludes payments made under the workman's compensation law, a law directly geared to the replacement of income and the payment of medical care for disabled people currently employed. It is obvious that the federal system must result in the payment of a life income to people who claim a disability but who do not regularly depend on employment income. This means that millions of people who are in and out of the labor force, such as housewives who voluntarily supplement the family income, or students working for additional spending money, or relatives who are occasionally on

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CHALLENGE staff members prepared this article after an extensive study of recent amendments to the Social Security law.

the payroll of a small businessman may build up eligibility even though their livelihood does not depend upon the necessity of working for a living.

Politically expedient

This practice of treating disabled persons—whether they be breadwinners or dependents, and whether they be injured on or off the job—in the same manner with respect to benefits and medical care, may be politically expedient as a way of attracting the largest number of potential votes, but it is surely self-defeating as a way of meeting the specific needs of each group. Such across-the-board settlements are obviously absurd. The hospitalized father of five receives the same increase in benefits as the single man or the professional claimant whose backache may or may not be work-incurred.

One of the major aims of any workman's compensation program is to rehabilitate the injured or sick worker by providing him with the best medical care and with vocational training which will fit him for economically productive work. In the final analysis, rehabilitation is the most meaningful form of compensation that the worker can get. In the long run, it is also by far the most economical method of administering compensation programs.

Of course, complete or even partial rehabilitation is not always possible. The trouble with the recent federal law is that it provides neither adequate vocational training for those who could be rehabilitated nor adequate income for that small percentage of individuals who are totally and permanently disabled. According to the law, the worker's family physician can submit the required medical evidence supporting a compensation claim.

There is also a provision which requires a claimant to seek assistance from vocational rehabilitation agencies in his state. In fact, the law requires that benefits be withheld if the disabled individual refuses, "without good cause," to avail himself of these rehabilitation services. The crucial words here are, "without good cause." Experience with this type of program demonstrates that good causes can be only too easily made up. While it is certainly not the function of the legislator to reform human nature, it is irresponsible to write a law so weak as to provide overwhelming temptations to evade it.

Shotgun method

Nor will the maximum allotment of 108 dollars per month provided for under the present law be adequate for that small number of workers who will never

again be able to work. While dispensing modest sums to thousands of individuals in shotgun fashion, it will be unable to meet the high costs of that small group which most needs it. Besides, experience shows that benefits once granted cannot be denied and must in fact always be increased. Since the permanently and totally disabled form such a small percentage of the total number of beneficiaries under the federal law, their cause will probably be least represented when there is talk of extending benefits.

There are several other reasons why this is a bad law. The act will result in the eventual establishment of a vast medical bureaucracy which will spend most of its time settling claims rather than healing the disabled. Almost inevitably, this will result in lowering the quality of medical care while raising a group of professional plunderers of welfare benefit programs.

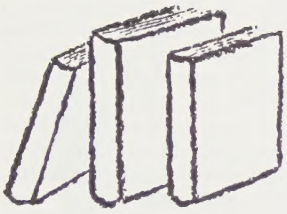
No adequate provision is made to foot the bill of this gigantic benefit program. Beginning in 1957, each of us will pay one quarter of one per cent of our annual income, or a maximum of $10.50, to provide for these benefits. No insurance company, because of its experience, could issue a policy to provide sickness benefits for one year—let alone for life—except for a premium several times the amount of $10.50.

A wasteful program

A principal objection to the program, however, is that it will not do the job it sets out to do. This is tragic. The federal government could have taken advantage of a remarkable opportunity to stimulate and subsidize existing state workman's compensation programs in their efforts to increase payments and rehabilitation facilities and personnel for that small group of totally disabled workers who most need it. Instead, it will erect a cumbersome and wasteful program to dole out life incomes for people who, in most instances, are properly supported by others. It will supplement family income rather than make restitution for the disabling loss; it will do nothing to improve or insure medical care; it will tend to dilute the present efficiency of the law with paper work and conflict. ■

Answers to Challenge Quiz

(1) False *(see page 48)*
(2) False *(see page 23)*
(3) True *(see page 41)*
(4) True *(see page 36)*
(5) True *(see page 8)*
(6) True *(see page 53)*
(7) False *(see page 32)*
(8) False *(see page 28)*
(9) False *(see page 13)*
(10) True *(see page 69)*
(11) False *(see page 18)*
(12) True *(see page 56)*



READING REPORT

The Changing Environment of International Relations. Brookings Lectures, 1956. 158 pp. Washington: Brookings Institution. $2.50.

•Six prominent educators and political scientists continue the Brookings Institution's explorations into the field of American foreign policy. They offer no set answers. They merely dig up the problems, probe for meanings and guideposts, and, in general, attempt to establish a balanced consideration of America's position in the world of 1966 or 1976.

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From the Depths. Robert H. Bremner. 364 pp. New York: New York University Press. $5.50.

•Poverty has always been a major economic disease to people of all lands and all times. Only in the last two hundred years has mankind awakened to the view that poverty is man-made, not "God-made." In the United States, this awakening occurred about 100 years ago, and Professor Bremner traces the rise of social awareness of this problem and the concurrent rise of reform movements that did much to shape our present "welfare" programs and our continuing battle to eliminate the economic basis of poverty.

Crisis of the Cities. Fred K. Vigman. 146 pp. Washington: Public Affairs Press. $3.25.

•Tracing the historical, social and financial background of the nation's major cities, Mr. Vigman, a former newspaper reporter, paints a gloomy picture about their future. "The American city will probably be like that of the New England mill town or the Pennsylvania mine town—a source of wealth, with the absentee owners and middle class living outside its boundaries," he maintains. A disturbing book, it turns a spotlight on a major national problem.

* * *

The Anti-capitalistic Mentality. Ludwig von Mises. 114 pp. Princeton: D. Van Nostrand Co. $3.75.

•An analysis of the roots and consequences of what the author calls an anti-capitalistic bias, this book takes the position that because capitalism grants to everyone the opportunity to obtain the most desirable positions, which obviously can only be obtained by a few, those whose ambitions are not satisfied make it a scapegoat for their own shortcomings. Professor von Mises discusses the views concerning the social order of intellectuals, writers, white-collar workers, laborers and

Marxists, among others, giving an oversimplified but provocative interpretation of any bias they may hold against capitalism.

* * *

The Executive Life. The Editors of Fortune. 223 pp. Garden City: Doubleday & Co. $3.50.

•This is another in a growing list of books about "the executive," but, happily, it is not just another book. From how to fire executives ("often the toughest problem a manager has to face") to how executives crack up ("few people are willing to talk for the record"), here are lively chapters on just about every aspect of an executive's life which read with the informality of an after-hours "bull session."

* * *

The Grain Trade: How It Works. James S. Schonberg. 351 pp. New York: Exposition Press. $6.00.

•The author, a director of the Chicago Board of Trade who has been in the grain business for forty-four years, presents a comprehensive description of the mechanics of merchandising and trading in cash and grain futures in the United States and Canada. In his introduction, Mr. Schonberg has explained that he is presenting information helpful to those interested in the grain trade—producers, consumers, county agents, legislators, foreign buyers and the like.

* * *

Can Prosperity Be Sustained? Neil H. Jacoby. 152 pp. New York: Henry Holt & Co. $3.00.

•Defining the objective of prosperity as "full employment and full production, without inflation, and in a free economy," the author answers a firm *yes* to the question in his title. He provides a somewhat detailed yet fully intelligible analysis, without recourse to technical terminology, of the primary factors involved, what can be done and how. As a former member of the President's Council of Economic Advisers, Mr. Jacoby is well qualified to deal with the future of our economy in direct relation to our U. S. government's actual policies.

* * *

The Push-Button World. E. M. Hugh-Jones, Editor. 158 pp. Norman: University of Oklahoma Press. $3.75.

•Automation has been presented as the means to an age of abundance, and as the creator of mass unemployment. Assuming the truth to lie in the middle, this book, originally a series of lectures at Oxford, takes up the probable effects of automation in intelligent, often provocative discussions by a group of British industrial and labor leaders.

* * *

An Introduction to Economic Reasoning. Marshall A. Robinson, Herbert C. Morton and John D. Calderwood. 335 pp. Washington: The Brookings Institution. $3.00.

•A lively, well-written introduction to the logic of economic behavior in our kind of market economy. The book seeks to provide laymen without formal background in economics with a method of analysis which will enable them to do their own thinking on the key economic issues of the day. The chapters on income distribution and economic growth are especially well done. Altogether, this should prove useful to anyone interested in learning to think "economically." ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 76.

(1) The current crop of business mergers is the most extensive in our nation's history.

True ☐ **False** ☐

(2) What Latin America most needs for its continuing economic progress is greater industrial expansion.

True ☐ **False** ☐

(3) The number of dolls manufactured in a year in the U. S. is five times our country's birthrate.

True ☐ **False** ☐

(4) Technological change harms more people in a static economy than in an expanding one.

True ☐ **False** ☐

(5) Inflation is generally defined as a situation in which a large increase of money supply has no corresponding increase in output of goods.

True ☐ **False** ☐

(6) Federal and state governments contribute over 15 times as much as private fund-raising organizations to alleviate social, medical and economic ills in the U. S.

True ☐ **False** ☐

(7) As talking pictures formerly seriously damaged the live theater, now TV may kill it.

True ☐ **False** ☐

(8) The President's Council of Economic Advisers knows how to prevent any threat to U. S. prosperity.

True ☐ **False** ☐

(9) A large store of armaments, and the capacity to produce more, is the prime requisite for a nation's security.

True ☐ **False** ☐

(10) Fast tax write-offs amount to interest - free government loans to business.

True ☐ **False** ☐

(11) The view that the less government there is in business the better, which lost ground in the 1930s, is making a strong comeback.

True ☐ **False** ☐

(12) The United States Atomic Energy Act of 1954 authorized the exchange of both classified and unclassified information on civilian uses of atomic energy.

True ☐ **False** ☐

Dept. of Better Mousetraps

Around the House: a mechanical canary which when wound up chirps a pretty tune and turns his head and tail in time with the melody . . . for houses built on hillsides, a self-leveling ladder attachment which adjusts itself hydraulically and locks . . . a cigarette lighter that plays a tune when flicked . . . an earthenware cup and saucer with a tiny tray attached for ashes, tea bags or after-dinner mints . . . a magnetized sweeper for sewing room or workshop, swoops up pins, needles, nails and tacks . . . and Silver Plater which claims to deposit a coating of pure silver on plated wear and won't wash or peel off.

* * *

The Animal World: *do-it-yourself "dream houses" for the family dog. Includes a miniature of the candy-striped sentry boxes of London's Buckingham Palace guards and a slant-roof "Cabana," complete with front porch and awning . . . a prefab birdfeeder . . . and place mats for pets, because even the most well-mannered have occasional slips.*

* * *

Personal Business: a chair with a coat rack for a back . . . mink shoe buckles with rhinestones . . . gold and white porcelain menus to put at each guest's place. A copy of an eighteenth century French piece done in Limoges china, but unglazed so that it can be written on in pencil . . . scent-sational pendant earrings that hold a stick of perfume . . . a pill box with a clock face on the cover. The hands are movable and you set them to indicate the time for your next pill . . . and Scotch- or Bourbon-flavored mouthwash.

* * *

Kitchen Kuties: *to cool a fevered morning brow or mop the bar the night before, a four-inch rubber sponge shaped like an aspirin . . . café espresso, Viennese coco-café and café Français, all instant coffees, available in sets of three . . . to utilize space on the side of the refrigerator or cabinets, a magnetic rack for hanging kitchen tools . . . and a ravioli Jiffy-master from Italy to cut and seal the edges of twelve filled squares at a time and thus make homemade ravioli easier.*

* * *

Junior Department: a made-to-order record where Santa Claus speaks to junior by name . . . a sled in the shape of a flying saucer . . . foam rubber blocks . . . a combination clothes tree and measuring rod . . . a make-it-yourself china doll . . . and bright red velour Santa Claus footprints sprinkled with glitter, each one foot long. Put them leading from the chimney to the tree for a Santa-Claus-stepped-here look. ■